Author:
Baker, Henry Felt

Title:
Banks and banking in the United States

Place:
Boston

Date:
1853

95-82498-12
MASTER NEGATIVE #

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Baker, Henry F[elt]

Banks and banking in the United States. By Henry F. Baker ... Boston, Ticknor, Reed, and Fields, 1853.

2 v. in 1. $23\frac{1}{2}$ cm.

Vol. 2 has on t.-p.: "Part II: Relating to the states of Kentucky, Ohio, Indiana, and Illinois," and is pub. by C. F. Bradley & co., Cincinnati.

1. Banks and banking ~~U. S.~~

Library of Congress HG2473.B2 6-37128†

——— Copy 2. --

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BANKS AND BANKING

IN THE

UNITED STATES.

BY

HENRY F. BAKER, 1815
Cincinnati, Ohio.

BOSTON:
TICKNOR, REED, AND FIELDS.
MDCCCLIII.

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BOSTON:
Thurston, Torry, & Emerson, Printers.

BANKS AND BANKING.

THE banking interests of our country have risen to an importance and magnitude and exert a sway, secondary only to that of the National Government itself. Deeply affecting the trade, property, and business pursuits of the whole people, it is obvious that a right or wrong policy in the system of Banking affects the prosperity of the entire community, and it is therefore the subject of constant watchfulness and discussion. Enlightened statesmen, political economists, and experienced financiers have advocated the most contradictory theories, and have introduced into the various States of our Union, systems totally dissimilar to each other, which, after experimental trials, have been substituted by other plans; but none of them have yet obtained universal assent and adoption. We have, accordingly, banks of discount and deposit, with a limited circulation; banks of deposit, exchange, and more extended circulation; and banks of circulation chiefly, with but limited means for discount. Some are established upon a purely specie basis; some upon public stocks, bonds, mortgages, of nominal value; some under general banking laws, safety fund laws, and free banking principles; some are managed by discreet and responsible directors, and others by inexperienced and reckless speculators, whose only aim is personal aggrandizement. While this diversity of practice exists in regard to the system of banking, there is a still wider difference in relation to the circulation of bank notes, and it is to the examination of these subjects that the following remarks are devoted.

Our banks were originally founded, and are still theoretically so, upon the contribution of the surplus means or capital of individuals, who unite in forming a joint stock company for the purpose of obtaining a profit on the funds thus subscribed, and which were remaining unproductive; and by loans made to individuals who need funds for business or speculative operations, facilitate the transactions of trade, and enable others to secure profits which would otherwise be beyond their reach. By these facilities, the manufacturer is enabled to erect more extensive buildings, procure his expensive machinery, and supply himself, at the most favorable moment, with a stock of the raw materials for his fabrics. From this source the merchant obtains his funds to build his costly freighting ship, or convert the proceeds of his return cargo into specie or merchandise for new enterprises; the builder is furnished with the means to erect new edifices for comfort and use; the land speculator can seek new sites for improvement and occupation; and the mechanic can enlarge his business, and extend the sphere of his operations beyond the requisition of his own immediate neighborhood, and furnish supplies of the varied articles of luxury, use, or necessity, even to the remotest part of our country. The trader, too, who is the intermediate factor between the producer and the shipper, is greatly aided in his operations by these bank facilities, and all the transactions of demand and supply are essentially accelerated. By all these the capitalist derives a profit from his dormant funds, the inert avail themselves of the enterprise and sagacity of the more energetic, and those whose property is vested in the hands of trustees or guardians are enabled to rely with security and certainty upon the dividends, which prudent directors are anxious to earn for them. Hence, new activity is imparted to trade, new facilities furnished to enterprise, railroads are constructed, factories erected, villages become towns and cities, farms are rendered more valuable, agricultural products find new markets, and the country at large becomes enriched. Strike out of existence the facilities which banking capital creates, and how rapidly would all our industrial pursuits retrograde and decay. Agriculture, commerce, manufactures, and the arts

would languish by impoverishment, and a general gloom would settle down upon the whole surface of the community.

If such, then, are the objects and results of banking operations, who can desire to preclude or embarrass them? Surely no lover of his country's welfare, or of the true interests of the community in which he dwells. Next to sound political measures, social order, and right education, nothing is of more vital importance than our monetary condition, and this mainly depends upon our banking institutions. No matter how fertile may be our farms, if we cannot dispose of the surplus produce, we have merely the means of subsistence. We may fill our manufactories with the results of labor, but if we cannot find a market for our wares, the implements must cease to be employed, as well as the hands which used them. Our ships may make a voyage to India or China, but if their cargoes must be sold and paid for before they are refitted for a new adventure, what precious time must be lost. And so we might carry out the calculation into every department of active life, but it is useless to pursue it. It is sufficient to state, that it is utterly impossible, in the present age of the world, to hold our place in it, much less to advance in importance, without the facilities which banking institutions afford. If, then, they are of such weighty importance to the prosperity of the community, it is certain that means can be devised to control their operations, and render them the servants and not the masters of the public; subservient to our use like the element of fire, which ministers to our comfort without being allowed to gain an ascendancy beyond our control. In a word, banking institutions must be reduced to a system, simple in its regulation, restricted in its power, founded upon a substantial basis, watched with a jealous eye; but with generous privileges to enable those who embark in it, the full reward to which their confidence is entitled. During the last twenty-five years, the system has been altered from the original plan, in some of the States of the Union, only twice. Originally established upon a purely specie basis, its first modification was the safety fund system, and the second, the free banking system. The

original plan allowed three dollars of currency for one of metallic deposit, but in the most conservative State, it is now limited to 125 per cent. of the capital, and more than two thirds of this privilege is practically unavailable, except by some of the smaller banks, who make great efforts to extend their circulation.

The first innovation, the safety fund system, was adopted in New York in 1829, and required from each bank an annual contribution of half per cent. of its capital to a common fund, to be deposited with the State Treasurer as a "bank fund," until it amounted to three per cent. of the capital of each bank, and was to be applied to the payment of the debts of any insolvent bank contributing to the same, and in case the fund was at any time diminished by payments from it, the banks were again required to make their annual contributions, till each had in deposit the three per cent. on its capital stock. For a series of years this system was regarded with favor, but the sudden failure of ten banks with a capital of $2,800,000 occasioned a loss of more than $2,500,000, besides the entire annihilation of their capital; and the dismay was so great, and the result so astounding as well as inconceivable, that the safety fund system was abandoned, and the third system of free banking under a general law was substituted, and has acquired general favor in the State where it originated, and been adopted in other States as more perfect than any heretofore devised. It has now been in practical operation in New York nearly fifteen years, and has at various periods been amended with a view of providing more perfect security, and may be regarded as perfect as legislative acts can render it. We propose to review each of these systems in detail, and select the States of Massachusetts, Ohio, and New York, as illustrations of the operation of the three different systems in these respective States.

In 1784, when the Massachusetts Bank was chartered in Boston, gold and silver were the only true standards of value, in conformity with the usage in all civilized countries, and this was the first effort in the United States, subsequent to our Revolution, to introduce a paper currency equivalent to specie. Gold and silver had long been regarded as the best standards

of value, because they are the best and most convenient instruments of exchange, and possess an intrinsic worth, corresponding with the cost and trouble of production, and neither deteriorate by time, nor diminish in value. They are the best adapted for the basis of engagements, receivable or payable at a distant period, and being divisible, and universally desirable, their appreciation is uniform in every country. At that period, the trade of our country was limited in its extent. Manufactures were carried on by individual exertions only; the markets for them were circumscribed within the narrow precincts of their immediate neighborhood; and the products of agriculture were exchanged for articles of domestic use. Our commerce was then in its infancy, and was principally employed in the conveyance of our agricultural products, and the proceeds of our fisheries, to the West Indies, South America, and Europe, returning home with such productions of those countries, as were required for immediate consumption or use; and bank facilities were hardly needed in these operations.

But the unparalleled increase of our navigation and commerce soon created a class of traders, who purchased and held larger stocks of merchandise for their business, and whose transactions were profitably carried on between the merchant and the agriculturist, the importer and the consumer, the exporter and producer. In proportion as trade and commerce increased, their operations called into requisition additional capital, and bank facilities were more or less frequently needed. The bank restrictions of those early days allowed only "$3000 to any individual at one time, and but $5000 in the aggregate to any one borrower," and the loan was only granted "for sixty days, upon merchandise, bullion, or other securities as collateral, and for thirty days only on personal obligations, with two securities," without the privilege of renewal on any terms, "but the money must be paid when it becomes due." These stringent regulations did not meet the wants of the community, and as trade increased, new banks were created, with more liberal views, but still conducted with extreme caution. The merchants having gradually adopted the practice of selling their goods on a credit, and requiring Spanish milled

dollars for shipment to India and China, or doubloons for the purchase of the produce of Cuba for Europe, they became dependent upon the banks for facilities, and these institutions were multiplied conformably with the wants of the community, and the expansion of trade. With their increase, the prosperity of the country constantly but unequally advanced, until we reached that crisis in our national affairs, which eventually involved us in a second war with Great Britain, and terminated so satisfactorily to all parties in 1815. During this entire period, the bank notes of Massachusetts were at all times convertible into specie at par, although, at the close of the war, those of New York, Philadelphia and Baltimore suffered material depreciation, in consequence of their suspension of specie payments; whereas, with the exception of a single year, during the financial crisis of 1835–38, when all the banks in the country suspended cash payments, the banks of Massachusetts have redeemed their paper on presentation, and furnished the clearest illustration of the fact, that an adherence to sound banking principles upon a specie basis, is auxiliary to a high degree of prosperity. If we look at the condition of Massachusetts at the present day, we shall find her commerce, manufacturing interests, railroads, internal improvements and mechanic arts, all in the highest degree of prosperity, while the interests of education, morality, religion, and all the charities of life, are provided for with princely munificence, and science, literature, and the fine arts have found a congenial home. In all that constitutes the true dignity and greatness of a State, Massachusetts will bear a favorable comparison with any of her compeers; and although small in territorial extent, her influence is as widely felt, her resources are as ample, her wealth as substantial, and her foreign credit as high, as that of any other State in our Union.

The origin of this success, is the steady labor, resolute perseverance, strict economy, and deep sagacity, which characterize the men of Massachusetts, and the results of these have been accumulated in bank capital, which has again dispensed the benefits which created its existence. Like a generous fountain, its copious streams have irrigated the soil, whence it received its supplies, every drop of which percolates and permeates to its pristine source, without perceptible diminution, and if undisturbed by extraneous causes, may still flow on forever.

As the banks were originally established on a specie basis, and above all were managed by discreet and responsible directors, the public were satisfied with their security and ready accommodations. When any one of them has shown signs of weakness, the public have been put upon their guard, and the Legislature have been prompt to impose new restrictions, whenever experience has suggested the necessity. As it now stands, the banking laws of Massachusetts are as perfect for the protection and security of the bill-holder, as human laws can make them. They require that "No bank shall go into operation, until one half of its capital is paid in gold and silver, by the stockholders, towards the payment of their respective shares, and not for any other purpose, and that it shall remain in the vaults of the bank, as a part of the capital;" and bills cannot be issued for more than 25 per cent. beyond the amount so paid in, nor can a bank extend its lines of discount beyond double the amount of capital paid in, however large or permanent its deposits may be. The stockholders are also liable, individually, for the payment of all the bills issued by the bank; and thus the community have ample security for the redemption of the bank bills; first, in the capital originally paid in; second, in the commercial paper taken for the notes paid out; and third, in the individual responsibility of the stockholders.

This last requisition has been regarded as too exacting and onerous, but it ought not so to be viewed. A number of individuals associate together, and form a joint-stock company, for the purpose of profit. They elect their own officers and managers, in whom they have confidence, and whom they thus constitute their agents. They have full power to ascertain the condition of the bank, publicly declare the amount of their profits, in which they participate, and enjoy the privilege of issuing their promissory notes without interest, as the money of the country. If the bank is unfortunate, is there any reason why they should not suffer the loss, as well as share the profits? Is the community to suffer by the mismanagement

of any of the partners in the business, when perhaps their own neglect in relation to the management of the bank affairs has occasioned its downfall? If partners in other occupations are liable for the losses of the firm, through mismanagement or misfortune, there is no substantial reason why the partners in a bank should be exempt from the same liability. Severe, however, as this law may be regarded, it is the condition upon which every stockholder in a bank in Massachusetts now holds his shares, and he is therefore deeply interested in the condition of the bank, since he can make no valid transfer of his interest therein, if the bank is insolvent. The last returns of the banks in this State were forty-three millions of capital, and twenty one millions of circulation; the bill-holders then have the responsibility of the stockholders, in addition to the commercial paper, taken in exchange for the bank notes issued, and the aggregate is eighty-five millions of dollars, as security of the payment of one quarter of the amount. In addition to this, the Suffolk Bank system exercises a constant watchfulness over the issues of every bank in the State, and not one could venture upon an excessive issue of its bills, without immediate exposure. And finally, there are the bank commissioners, whose special duty it is to examine into the condition of every bank in the State, and personally examine not only the liabilities of the banks, but the actual value of their assets. It seems impossible to suggest any better system of banking, and yet individuals have been found restless enough to attempt a change of this system, and introduce a free banking law for the better protection of bill-holders! It is, however, a severe commentary on the value of the labors of these legislative philanthropists, that no set of men have yet availed themselves of the privilege, during the two years which have elapsed, since the act was passed, although applications for seventeen millions additional bank capital have been subsequently made to the Legislature of the State. During nearly seventy years, which have elapsed since the establishment of the first bank in Massachusetts, the country has passed through the various vicissitudes of prosperity and adversity, commercial seizures and embargoes, peace and war, growing out of the continental troubles in Europe; and when,

after the general peace of 1815, by the indomitable energies of our countrymen, the nation again emerged from the thick darkness of despondency, and resumed her commercial pursuits, it was with a buoyancy and daring which astonished the world with her unprecedented success. During the last thirty-five years, we have been in imminent peril of war, once with France, twice with Great Britain, once with Spain, and engaged in actual hostilities with Mexico, to say nothing of Austria and Peru, which were of minor importance; and although these troubles have all, with one exception, been amicably settled without an appeal to arms, still the effects have been felt in our financial circles, producing those fluctuations which operate directly upon the interests of trade.

Through all these perilous periods, Massachusetts has proudly sustained herself, yielding only once to the financial crisis, which prostrated every bank in the country for one brief year, and then with reluctance. A system, then, which has for seventy years been subjected to such severe experience and trial, through such various vicissitudes, must possess elements of vitality and strength, which should entitle it to the confidence and support of the commercial community, however antiquated it may appear, in comparison with those subtle theories which our modern financiers so strenuously advocate.

Safety fund Syste

Let us now examine the safety fund system, which was first adopted in New York, in 1829, and, after nine years' trial, abandoned for the free banking system, which was substituted in April, 1838. As before stated, the safety fund was obtained by a tax upon the banks, of half per cent. per annum, for the redemption of the notes of insolvent banks, and for their other liabilities; and ten of these banks have absorbed more than two millions and a half dollars, of which about $1,550,000 were for redemption of bills, and more than one million for other liabilities. If the fund had been appropriated only to the payment of the bills, it would have been amply sufficient for this purpose, as at the time of the failure of the banks it amounted to $1,876,000; but the surplus has been absorbed by the other debts of these banks, together with $900,000 more for their debts to depositors and other creditors. Our

late excellent chief magistrate, then comptroller of the State of New York, remarks, in one of his reports, "That banks which enjoy the exclusive privilege of furnishing a currency, should be required to contribute something to a common fund to make that currency safe and secure, seems reasonable and proper; but what propriety or justice can there be in requiring the banks to contribute to a general fund, to pay depositors, or other general creditors of the individual banks? It is no exclusive privilege of a bank to receive deposits, or to contract general debts, and no reason, therefore, is seen, why this fund should be applied to pay them."

Thus it will be seen that the Legislature of New York, in attempting more than could be accomplished, by paying depositors of the insolvent banks out of the safety fund, have exhausted it, and mortgaged all its future receipts, so that bill-holders will have no longer any security, during the remainder of the term which some of the banks have yet to run. In 1846, the new constitution was adopted, which prohibits the Legislature from "granting any special charter for banking purposes, but that corporations or associations might be formed under general laws." The State of Ohio, however, in 1845, adopted the safety fund system, and established their State Bank upon the principles which New York had abandoned. The bank capital of Ohio is about $7,050,000, of which the State Bank forms less than four and a half millions of dollars. The branches of this bank are under the supervision of a board of control, who furnish all the notes required for circulation, which is limited to double the amount of the capital on the first hundred thousand dollars, one hundred and fifty per cent. on the second hundred thousand dollars, or part thereof, and one hundred and twenty-five per cent. on the third hundred thousand dollars, or part thereof. But one branch has over $200,000, and that is $250,000. Each branch is required to deliver to the board of control ten per cent. of the amount required for circulation, either in stocks of the State, or of the United States, or the amount in money, to be applied to the redemption of the notes in circulation of any one or more of the branches, which may fail to redeem its notes, and each solvent branch is required to contribute in the

ratio of the circulation to which it is entitled to the sum necessary for redeeming the notes of the failing branch, to be remunerated from the safety fund, as soon as sales of the stocks in the hands of the board of control can be effected. Whenever a branch fails to redeem its notes, all its property, notes and assets, pass into the hands of the board of control, who appoint a receiver to settle its affairs, and convert its assets into money; who, after reimbursing the amount due the safety fund, pays the remaining liabilities of the branch, and finally distributes the balance among the stockholders, in proportion to the stock by them respectively held. The board of control have the power to prescribe rules for the settlement of the balances between the different branches, to visit personally, or by agents, the various branches, whenever they think proper, and examine their books, accounts and securities, and require a statement of their condition, as often as they think proper, and can reduce the circulation of any particular branch, if they deem it necessary for the protection of the other branches, or the public at large. Each branch is in other respects an independent bank, having its own separate stockholders, who elect their own directors and divide their own profits. But one branch has been embarrassed since the adoption of this system, and the loss incurred was eighty thousand dollars, which the other branches paid, and the bank then passed into other hands, and is still in existence. The old banks have a capital of less than two millions of dollars, and the independent banks less than one million, and these latter are required to deposit with the State treasurer, certificates of stocks for the entire amount which they have in circulation, which cannot exceed three times the amount of their capital actually paid in. Such is a condensed statement of the safety fund system of banking in Ohio. There are forty branches of the State Bank, who have a circulation of about $8,290,000, to provide for which, there is a safety fund in the

hands of the board of control of about - -	$875,000
Specie in the vaults of the branches, - - -	1,854,230
Eastern exchange, - - - - - -	2,000,000
Constituting an aggregate of - - - -	$4,729,230

as available means to meet their circulation, and it certainly exhibits a strong position; and when we consider that Ohio has, during the last year, exported upwards of forty millions in value, of her surplus produce to other States, we must confess that the resources of the State will bear a favorable comparison with those of any other in the Union. The value of the landed property in the State is estimated at five hundred millions of dollars, and on this amount a clear profit is realized beyond the expense of subsistence of more than eight per cent. per annum, from agricultural pursuits. This exhibits a high degree of prosperity, and the banks necessarily share in this accumulation of wealth.

In the selection of Ohio, as an illustration of the working of the safety fund system, we have selected a State, which, in proportion to its trade and population, has a very small amount of bank capital, and which has been distributed through its various counties, with reference to the wants of each, with great impartiality. Each branch is represented in the board of control, who have the supervision of the whole, and can restrict the circulation in the manner already stated, or reduce it, when there is any danger apprehended, at their own discretion. This system is regarded in Ohio as perfect as legislation can make it, and is certainly far preferable to the New York law, in every particular. In prosperous times, it secures most amply the payment of every note issued by the banks in this State, under these laws, and even in seasons of depression the currency would rest upon a substantial basis. Even if the cereal crops were partially destroyed in any single year, and a loss of twenty millions value of produce be the consequence, the operations of trade would be seriously affected, and Cincinnati would suffer in the same way as New Orleans would, if the cotton crop failed in the Mississippi valley; but the substantial wealth of the State would remain unimpaired, and the loss would only stimulate new efforts and extended cultivation. The banks might have their eastern balances reduced, but the demand upon them for coin would be very limited, since the public confidence in them is so great, that their bank paper is held equivalent to specie. The conclusion then is, that in such a State as Ohio,

having such increasing annual resources, with a banking capital so small in amount, furnishing a restricted circulation, distributed by local banks in their own immediate neighborhood, and watched by a jealous supervision, the safety fund system, as established by these laws, is quite as secure as the specie basis would make it. In fact, the banks have an equivalent to specie in the public confidence, which is so universal throughout the State; and even if the currency were doubled by the banks now in existence, (if it were authorized by law,) it would immediately enter into circulation, and even then be found inadequate to the wants of the community in their daily payments to each other. In fact, the want of this currency is so seriously felt, that the bank notes of the adjoining States have been substituted from necessity, to supply the circulating medium. In admitting that the safety fund system in Ohio is unobjectionable, and that the banks under these laws are perfectly safe in periods of prosperity, or reverses, it does not necessarily follow that in other States the system affords equal security. In Ohio, the natural fertility of the soil spontaneously furnishes wealth to the inhabitants, and cultivated as it is by industry, its agricultural products alone furnish a mine of wealth better than gold. Purchases of land, not of fancy stocks, constitute the only speculation, and the principal use of bank notes is paying or collecting debts, buying or selling commodities. But in other States the case would be widely different, for no others possess the natural advantages of Ohio.

The principal objection to the safety fund system, is, that it creates a fund sufficient to give credit to any banking association which may be created for speculative purposes, and being owned by parties in other States after their notes are fairly in circulation, the capital may be withdrawn, the bank declared insolvent, and the community defrauded. Although the safety fund may be nominally large enough to cover the amount of these insolvent bank notes, it is usually made up of bonds and mortgages, which are not immediately convertible, and the delay in redeeming the circulation causes an immediate depreciation, and occasions a loss to such unfortunate holders as cannot wait for the ultimate redemption.

The past experience of New York has shown that this description of security has only yielded sixty-eight per cent. of the nominal value for which it was pledged, and the State stocks of Indiana, Illinois, Arkansas, Michigan and Alabama realized from fifty to seventy-three per cent. of their nominal value. Such being the case, there is only a partial security in the system, and the notes of such banks are not equivalent to gold and silver as they purport to be, and ought not to circulate out of the State where they are issued.

Let us now examine the free bank system of New York, adopted there in 1838, and subsequently in several other States of the Union. By this system "every individual and association was authorized to engage in the business of banking; and on depositing with the comptroller the stocks of the United States or of any State which should be, or be made, equal to a five per cent. stock, — or such stocks and bonds and mortgages to the same amount, on improved, productive, and unincumbered real estate, worth double the amount secured by the mortgage, over and above all buildings thereon, and bearing an interest of six per cent. per annum, — the comptroller was required to deliver to such individual or association, an equal amount of bank notes for circulation, duly numbered, registered and countersigned at his office." No specific amount was required from individual bankers before they commenced operations, nor were the stockholders in the associations liable in their individual capacity. The result was, that in the abundant supply of stocks of every description, banks were immediately created out of the cheapest materials, and bank notes furnished to the community with a generous profusion. The extraordinary expansion of the currency produced an inflation of prices, credits were pushed to their utmost extension, free scope was given to the wildest speculation, and the Western and South-Western States freely furnished their bonds to aid the delusion. But the crisis came with fearful results; in the first place in the shape of non-payment of interest, secondly, of great depreciation, and finally, repudiation of the State bonds, and the consequent failures of the banks which owned them. But these disasters did not discourage the people from a persistence in

the scheme of free banking — on the contrary, they resolutely set to work to retrieve their disasters, and amended the law to guard against their recurrence. This was done by excluding all stocks but those of the State and the United States, and restricting the bonds and mortgages to smaller amounts and a reduced per centage of their intrinsic value. Although the system has been materially amended by legislative enactments since its first introduction, and is now regarded with favor by prominent financiers, as affording ample security to bill-holders, yet even on this point a question may be raised. In periods of prosperity, there is no doubt of the value of the bank notes of these banks, because the stocks or mortgages will command the money for which they are pledged; but let a severe pressure occur, followed by a general panic, a sudden contraction of the currency, and the withdrawal of all floating capital, and these free banks would experience some difficulty in converting their stocks and mortgages into the requisite funds to carry on their redemption. Even the unavoidable official delay in obtaining the possession of their securities would prove the ruin of some of the banks, and the failure of even one of them might prove disastrous to many. But even after they were repossessed of their securities, there would not only be depreciation in their stocks, but a loss of time in effecting a sale of their mortgages. Their discounted paper would only be partially available at a ruinous sacrifice, and with many of the banks there could be no alternative but suspension. If such would be the probable fate of well conducted institutions, which held none but the best of business paper, and had deposited unquestionable securities, how much more fatal would the crisis prove to those who had deposited more unsaleable securities, or held more questionable discounted paper. "Free banking" is a popular scheme when contrasted with that of "chartered monopolies." The privileges are open to all who choose to avail themselves of them, and no matter what the reputation of the individual may be or the character of the association, if the former can furnish $50,000, or the latter $100,000 in State stocks and mortgages, each can establish a bank and enjoy all the privileges that acknowledged wealth, high reputation, or perfect integrity can

Doubtful free-banking.

command. The individual may be a stranger from a distant region, without the slightest interest in the community where his bank is located, yet with the requisite securities he can demand of the comptroller or superintendent the bank notes therefor, and commence his financial operations without any hindrance. The bank itself may be located in some remote point, out of the range of ordinary travel, and its manager a resident of some commercial city, devoting his energies to the business of circulating his notes, and supplanting the issues of more substantial banks, who are transacting a legitimate business. A merely nominal amount of discounts and deposits is returned in technical compliance with the law; and in the place where the bank is located, some adroit agent represents president, directors, and cashier, by virtue of a power of attorney. No facilities are rendered to the trading community, nor are the public in any way benefitted by the banks, but on the contrary are subjected to the discount, at which the bills are redeemed by the owner in the place of his residence; this discount being less than the cost of obtaining the specie from the place where the bank is nominally located. By adroit management, a considerable amount of brokerage may be made on the redemption of these bills, which are again put into circulation at some distant point, and again redeemed so long as money is abundant. Aided by similar establishments in Indiana, Illinois, and Missouri, the combined forces may derive a large emolument from this business of circulation and redemption, levying a discount on the community until a protracted pressure occurs, the currency is driven home for the coin, and the whole concern suspends payment, and the community are compelled to await the sale of the securities for their partial reimbursement out of the scanty materials which the depreciated value of the stocks and mortgages may ultimately produce. To form some adequate conception of what this might amount to, it is only necessary to refer to the reports of the proceeds of the St. Lawrence Bank, whose securities for $81,227 sold for $27,232; of the New York Banking Company's securities for $26,000, sold for $4370; of the Erie County Bank, whose mortgages for $15,000 on property valued at $31,500 exclusive of buildings,

sold for $3000; and of the State Bank of New York, whose Illinois State stock for $5000, produced only $812.50; all in the State of New York, and all under the general banking law of that flourishing State, since 1838.

More recent laws have imposed additional restraints, and required the individual banker to transact the business of the bank, at the place where it is located, and superadded his personal security for the payment of the bills which he issues. But laws of this sort are but cobwebs in the hands of designing men, easily broken through and derided.

What may be done by an individual banker, may be accomplished on a larger scale by an association, which, with larger means, commands a more extended influence. By receiving individual deposits, issuing certified checks, drawing time bills, and offering certificates of special deposit, and various other artifices, they may contrive to accumulate an operative capital, larger than their own nominal amount. For this there is no deposited security, and the larger the sum, the stronger the inducement to play a bold game and entrap the unwary. The stockholders may reside in distant States, having no sympathy with the community, who are the victims of their cupidity; and when their liabilities have reached the highest attainable point, suddenly suspend payment, buy up their own bills at an enormous discount, for a short period, or leave them to be redeemed by the comptroller, or superintendent, out of the proceeds of the securities deposited, having previously disposed of the stock to parties who are not within the reach of the law. Such operations have been successfully accomplished, and will continue to be practised, as long as knaves exist in the world, or dupes who are willing to trust them. But there is another serious objection to this law, which is, that it entrusts to a single individual a despotic power, more arbitrary than that which the monetary autocrat of the late United States Bank was accused of exercising by his adversaries. The superintendent is the sole judge of the securities of the banks, and can withhold or dispense the bank notes, as partiality, caprice, or prejudice may dictate. Bribery may corrupt, or political animosity may sway his action, and his independent will can build up or destroy the banks, by

favoritism or coercion. Appointed by the executive, for a term of years, he is not responsible to the people, but can exercise an inquisitorial and executive control over all the free banks in the State; being the sole arbiter and appraiser of the value of the securities deposited for the bank notes, with power to coerce and withhold from one party, while he freely dispenses and repletes another, with whom he may be in alliance. In a period of high political excitement, even if his integrity could not be assailed, his partisan feelings would exercise a sway; and we have sufficient evidence of this, in the embittered struggle between the United States Bank and the national executive, which terminated in the overthrow of that powerful institution.

Such is a brief synopsis of the three systems of banking, in operation in the different States, but generally modified from the outline thus presented, to suit the crude notions of experimental legislators, or the ever varying expressions of public opinion. The States are independent sovereignties, and have the undoubted right to enact any bank laws that may suit the people; to issue "bogus" paper for currency, and to pass it among themselves for money. But they cannot expect to pass beyond their own boundary, and impose upon other States that which has no intrinsic value, without censure.

When we take into consideration the different circumstances under which the banks in the various sections of our country have been established, we are surprised at the degree of harmony of action which exists, where such rival interests are so constantly at work. Amid communities so diversified in their interests and pursuits, so remotely separated in their principal commercial and agricultural marts, the bank directors of such widely differing minds have generally adhered to the first principles of banking with wonderful fidelity, and promoted the interests of those in whose midst they have acted. Extraordinary emergencies have sometimes led them into errors from excessive confidence, but the object has always been to impart vitality to trade, and assist the enterprising. Instances, however, are not wanting, where bank charters have been perverted into instruments of chicanery and fraud, and whole communities have been made the vic-

tims of unprincipled money brokers. Banks have been established in small towns, remote from the channels of trade or travel, whose emissions of currency have been scattered broadcast through the land, and whose brief existence has been followed by the anathemas of every honest man whom they have despoiled. This system of plunder is atrocious enough in its direct effects, but when its indirect results are taken into account, the injury it produces on the reputation and credit of the solvent and substantial institutions, it ought to be reprobated and denounced by every individual who holds a bank note, or has occasion to use one. The sources of such evils are our legislative bodies, who, either from importunity or misrepresentation, are induced to grant these charters to irresponsible parties, or else do not confine them to such places as actually require bank capital for the local trade of the neighborhood where they are established. If charters were never granted but to individuals of known property, who were required to hold their stock for the first year, after the establishment of the bank, and the further requisition, that the directors should all reside in the county or district where the bank was located, and that its managing officer, whether president or cashier, should be in the banking-room, instead of Wall street, one great evil would be remedied, and we should have more confidence in the currency of the smaller banks, who now enjoy more than their share of the circulating medium of the country.

The multiplicity of small banks is a great and increasing evil. There are in the United States more than one thousand banks of circulation. They have, on the average, five directors each, and, consequently, there are five thousand individuals of different minds and pursuits, to control the management of nearly $275,000,000 of banking capital, in the various parts of the country, and thereby protect their own interests, as well as those of their friends, who look to them for aid. It is impossible to suppose that in such a diversified management, there should not be a large share of selfishness, favoritism, rivalry and contention; and it is a matter of surprise that more discordant views should not prevail, rather than that there should be so much harmony of purpose, and unity of

action. It would be natural to suppose, that mere local interests would occasion constant turmoil, and, above all, that sectional jealousies would create as much clashing in the financial world, as they do in political circles. But it is not so; for the rate of exchange regulates the movements of the banks in the different sections of the country, and compels them all to keep near the standard value of gold, or be discredited in their circulation.

It is maintained, however, that it is not only equitable, but indispensable, that there should be small banks in the country towns, as well as large ones in the cities, to supply the wants of the small traders, as well as the wealthy merchants or manufacturers, and that all have equal rights. This may be admitted, but as it can be shown that the small banks enjoy greater advantages in the extent of their circulation, it is but fair that they should be classified and allowed only their due share of the circulation, as in perilous times they are mainly dependent on the larger banks for succor. In Massachusetts, for instance, the country banks have in circulation seventy-two per cent. of their capital, while the city banks have only thirty-four per cent., and as the circulation constitutes a large share of the profits of banking, it is evident that the small banks enjoy the greatest advantages. In the important matter of representation, we classify our smaller towns into districts, and allow them only their proportion in our legislative assemblies; why should not a corresponding apportionment be adopted in the distribution of bank charters, so intimately affecting the interests and prosperity of the whole community?

It is a mistaken idea, that banks create money, or make it more abundant; their issues are only substitutes for money, and are of great convenience in the daily transactions of adjusting accounts, and furnishing a convenient medium of transmission from place to place. The notes issued by them, which constitute our currency, are only the evidences of an equivalent amount deposited with them, which they promise to pay the bearer thereof on demand, in coin, and the value of these notes depends upon the degree of confidence to which their bank management proves itself to be entitled. If the bank has a real capital, the paper is equivalent to specie, but

if the deposits are only the notes of the stockholders, the bank notes are worth no more than the mutually endorsed paper of these same stockholders, in their individual capacity, deprived of the attractive form of bank-note engraving. An act of incorporation stamps them with no additional intrinsic value, although their specious appearance excites less scrutiny and distrust. The multiplicity of banks, therefore, does not indicate the increased wealth of a community; it merely collects that wealth, be it more or less, together, and substitutes its own notes for that which it holds on deposit, adding to the amount such further sum as the public at large may choose to entrust them with, or which the law, in addition thereto, may authorize them to issue. When a bank has once firmly established its reputation, its circulation gradually becomes of a permanent character, and is not unfrequently hoarded up in lieu of coin, or scattered in distant places, thereby augmenting the resources of the bank, by exempting it from the immediate hazard of daily calls for redemption. It is one of the principal sources of profit to the bank, and, to effect such a state of things, the smaller banks use their utmost efforts. Hence we find them discounting small sums to individuals, upon the condition that the bills shall be circulated in remote places, and thereby scattering them widely. An examination of the list of more than five hundred banks, which have failed in the United States, will show that they were principally of small capitals, nearly one third of which were in New York, sixty in Pennsylvania, and fifty in Ohio; and besides the injury and loss which they temporarily occasioned, their bills are now the convenient materials of counterfeiters, to alter into denominations of genuine and current bank notes at the present day, and thus inflict a serious loss upon the laborers and traders in the country, who are generally unable to detect the fraud, until it is too late to escape the loss. The notes of these small banks are generally under the denomination of five dollars, attractive in appearance, and rich in embellishments. Sagaciously scattered among the population of our Western States, who are accustomed to the use of a defaced and mutilated currency, they are readily adopted into the circulation, until the distribution is so general, that no inquiry is ever

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made as to their character. In the mass of paper thus designedly set afloat, there is an admixture of bank paper of very questionable solvency, and when the financial operator has exhausted his stock, the bank suddenly fails, with one or two hundred thousand dollars in the pockets of the people, who, instead of travelling a thousand miles to seek redress, quietly sell the trash at fifty per cent. discount, and thus allow the swindler to be enriched, without any attempt to bring him to justice.

Instances have occurred, in which bank bills have been put into circulation, before the bank itself had either a banking house, books of account, or even capital to commence with. Within a short time, a bank in Kentucky issued a considerable amount of its bills, which were returned for redemption, from Indiana, before its cashier had a place of business, or the bank a known locality, and the party who presented the bills for redemption was actually arrested by some of the directors, for having in his possession notes alleged to have been fraudulently obtained, but which were actually issued by the president of the bank, in his excessive haste to discount paper and get his notes into circulation.

More recently, the pork dealers in Indiana have sustained heavy losses by the failure of the two Connecticut banks, whose bills for two hundred thousand dollars were profusely scattered throughout that portion of the western country. Such transactions as these naturally produce a vast deal of distrust, even in regard to solvent banks, and unless some energetic measures are adopted to crush such nefarious financiering, the community must continue to be swindled by these unprincipled adventurers. For want of a better law, it would be wise to prohibit in every State, the circulation of the bills of any bank in another State, whose capital was less than $200,000, thereby implying that it was managed by a board of directors, who felt some responsibility for its circulation, and held the means of its redemption. But how small a portion of the trading community know the standing of the thousand banks, whose bills are daily taken in the ordinary routine of business, in small towns and country villages. In these bustling days of railroad conveyance, a person may

travel from Maine to Louisiana, and scatter broadcast, throughout the land, the bills of banks, which he would be unwilling to receive on his homeward route, and with ordinary sagacity, or assurance, do it with impunity, and but for the intervention of money-brokers, these same bills might be a circulating medium in some remote places, for a long period after they had fallen into disrepute.

It may be asked, what is the remedy for these evils? Some will maintain, that if the two banks, which recently failed in Connecticut, had been instituted under the free banking system of New York, there could not have been the heavy loss now sustained. Neither would it have occurred under the restrictions of the specie basis, if these had been enforced. As it is useless to enact laws against burglary, if our police are not on the alert to detect the criminals and bring them to justice, so also it is in vain, that commissioners are appointed to inspect the condition of banks, if they perform their duties imperfectly, and thus lull the community into fancied security. In the instances referred to, a single individual has, through the operations of these two banks, thrown the whole country into alarm, and embarrassed the circulation of both Eastern and Western notes, by the issues of worthless bank paper, and the banks in Connecticut have no reason to complain if their notes are discredited, when such palpable frauds can be perpetrated under charters granted by their Legislature, and of which there must have been an infringement, from the very commencement of these banking operations. It is only to be regretted that the entire loss did not fall upon the residents of the State, instead of being distributed throughout the Western country. We constitute, by our acts of legislation, bank notes as the currency of the country, and although they are not strictly a legal tender, yet the trader, mechanic or farmer, who should refuse to receive them in payment, could have but little to do with the community. Such being the case, the government which has authorized the currency, is bound in good faith to require that it maintains its nominal value. It is made the representative of coin, and any deviation from this condition ought to be remedied by suitable remuneration to the sufferers, or at any rate corresponding

penalties ought to be enforced. But where is there an instance that directors of fraudulent or irresponsible banks have been made amenable to the violated laws of the State?

There is another prolific source of many vexatious losses on bank notes in the Western States, arising from the intolerable usage of circulating defaced and mutilated bills. In the Eastern States, a torn bill is never paid out of the bank which originally issued it after it has been once returned, and hence there is at least a clean currency; but in the West, a really clean bill is rarely met with. This is miserable economy on the part of the banks themselves, in the first place; and secondly, it materially aids the operations of counterfeiters, who, by soiling their own productions, manage to obliterate the defective part of their work, and thus elude a ready detection. It is not unusual to see parts of two bills, one half genuine, the other counterfeit, pasted together, and entering into the circulation without rejection. When such indifference exists, the only wonder is that more extensive frauds are not constantly perpetrated. If the banks would refuse to receive such trash on deposit, it might sooner find its way home, and induce the banks which issued it, to favor the community with something better than filthy rags, and which are positively unsafe to handle. Indeed, there is no reason why a bank should be permitted to pay out mutilated currency, any more than clipped coin, or light gold; and if the best policy was adopted, banks would never pay out the same bills after one round of evident service, but issue new paper. The Bank of England never pays out its notes a second time, even though the bills have never passed out from their enclosure, and the engraving of these notes is so severely simple, that counterfeits are rarely seen and immediately detected. Their lowest denomination is five pounds, and we might advantageously copy them in this country by restricting the issues of our own banks to the lowest denomination of five dollars, thereby distributing throughout the community a larger supply of silver and gold, and defeating the counterfeiter in his frequently successful attempts to alter our small notes into those of a larger denomination.

The Legislatures in most of our States are more prone to excessive legislation in regard to banks, than in reference to any other description of chartered corporations. Many of these restrictions are unwise, some of them unjust, and in one State, at least, manifestly contrary to the Constitution of the State. We refer more particularly to the onerous tax law of Ohio, which is attempted to be enforced by what is termed the "Crowbar Law," and is justified by judges who have the effrontery to reverse the decisions of the Supreme Court at Washington, and promulgate their own crude notions as the true construction of the law of contracts. But even in Massachusetts there is a singular anomaly in the laws relating to banks. A tax of one per cent. is laid on the capital of banks under special charters, while those, which may hereafter adopt the free bank system, are exempted from it. In other words, the banks which are established upon a specie basis are compelled to pay about two per cent. on the amount of their circulation, while those whose issues are conditioned upon State stocks are wholly exempt from the tax. Again, banks of $100,000 capital may have an equal amount of circulation, and a permanent deposit of $100,000, and yet they cannot loan one dollar of the latter, after their loan of discounts has reached $200,000, or double the amount of their capital.

In Louisiana, also, similar restrictive laws prevent the banks in New Orleans from exercising the ordinary functions which rightfully belong to them, and they have generally on hand double the amount of their circulation in specie, because they cannot increase their line of discounts without infringing the law. These, however, are probably the sad effects of the extraordinary expansion of banking capital in that State in 1836 to thirty-four millions of dollars, and the suspension of all their banks in the following year, preceding, as they did, the general bankruptcy of that memorable period. There is not a commercial city in the United States that more needs a liberal banking system than New Orleans, and "not merely policy and expediency, but absolute necessity requires a change as an essential auxiliary to her prosperity."

In the various discussions upon banking concerns, that of

the currency, or the circulating medium, is the particular subject which most materially affects the public, and upon which most of the legislative debates periodically dilate. This circulating medium purports to be the representative of gold and silver only, and its equivalent in value, and although there is never coin enough in any single bank to redeem at once all the bills which have been issued; yet, when there is convertible paper enough held for the amount to secure its redemption as fast as it can be wanted, while there is confidence, there will be no lack of coin, even though the apparent supply is not one fourth part of the amount of circulating notes. If, however, we abolish the specie basis of bank notes, and substitute that of State bonds as security, it would be nothing more than government paper, which may, in some sudden emergency, be subject to depreciation. In a period of peace and prosperity, we may ridicule the idea of United States stocks being below par, but it is impossible to foresee how soon we may be embroiled in a foreign war, or how soon the English holders of our stocks may deem it for their interest to send back our two hundred and fifty millions of bonds and stocks for sale in this country. And no system of banking which does not in the first instance have its stock paid up in specie, the convertible value of which is retained to support the system, and with it the reputation of responsible directors, is entitled to the public confidence and support. A bank which is skilfully conducted needs but a small portion of its original amount of specie to be kept on hand, for it can always command it, when needed, for the purpose of redemption as fast as its bills are presented. It thus enlarges its operative capital, and by the act of the government which grants it the privilege of supplying currency, renders itself liable to such restrictions as the safety of the community requires. Past experience has taught us what those restrictions ought to be, and whenever any departure from the principle has occurred, inevitable mischief has followed. Government paper is not necessarily equivalent to gold and silver, and ought not to be the basis of bank issues, since in critical periods it is liable to depreciation. The country has, in past times, suffered enough from this cause, and we have

no apology for again introducing a paper system when we have wealth enough in the country to supply all needful facilities for the purposes of a legitimate and wholesome trade, as well as the wants of enterprise and improvement. But in these days of "progress," the history of the past appears to be wholly disregarded, and systems of banking are advocated which would only terminate in our old "continental currency." Can any rational person desire such a state of things?

It should be borne in mind, that successful banking is, in itself, a science, not acquired with facility, or mere observation, but by laborious study and practical application to its details and operations. And when we investigate the origin, foundation and career, of the thousand institutions in the various towns of our country, we shall be more surprised that they are so well conducted, rather than at the departures from banking principles, which occasionally are developed. It would be marvellous indeed, if individuals drawn from the industrial pursuits of life, the professional study, the counting-room, the workshop, and the farm, should intuitively comprehend the difficult mysteries and perplexities of currency, in its contraction and expansion, and of exchange in its constant fluctuations, produced by silent operations in distant markets, and imperceptibly yet inevitably influencing the monetary condition of their own sphere of operation. Few individuals, engrossed in their own affairs, can have leisure for these topics, and yet without this knowledge a banking institution is without chart or compass. Even in our commercial cities, surrounded as the banks are by the hourly means of intelligence, how many there are who heedlessly follow their own course of policy, unmindful of the narrow strait to which they hasten, until by their own rashness they are stranded. The causes which vitally affect their condition are so remote, and beyond the reach of ordinary observation, that their very suddenness requires constant vigilance and precaution. Not that we would encourage timidity — far from it. If a bank or individuals fail, we should investigate the causes before we suspect others of weakness. If a temporary panic seizes a community, a bank should inspect its own strength and re-

sources, but not intrench itself within impregnable barriers and lock itself up in its own vaults of complacent self-reliance. It is wiser to aid the weak and encourage the timid, when the disturbing cause is merely local, or temporary. There are, however, periods, when even local or adventitious circumstances occasion a wide-spread apprehension, if not consternation; trifling indeed in themselves, but disclosing a general state of affairs which ought not to exist; and such has recently been the case. A single bank, in our commercial metropolis, had deviated from the prudential rules of banking, by borrowing a large sum of money, payable on demand, which it had imprudently loaned on time. The result is well known; it became embarrassed by a sudden demand from the creditor bank, and was compelled to solicit aid from other sources. This led to the disclosure, that most of the banks were overbanking, or discounting more freely than their means would justify, and a salutary warning having thus been given, the undue expansion received a timely check, thereby averting some subsequent crisis in the monetary affairs of the whole country.

All banking institutions are established for two ostensible purposes: first, the lucrative employment of surplus capital, and secondly, the benefit of the community by furnishing it with bank facilities. Under judicious management, both these objects can be accomplished; for independently of the privilege of issuing bills for a larger amount than the capital stock, the banks are constantly receiving the funds of their depositors, whose balances constitute a steady fund for loans to those who may occasionally need them. When the supply thus incidentally collected is judiciously distributed, a bank accomplishes all that it was originally instituted for, and becomes of great public usefulness. But when it is created by the joint stock notes of its proprietors, for the purpose of issuing bank notes and distributing them among its proprietors for the purposes of speculation, or the thousand various schemes to which funds thus created have been applied, such a bank is an incubus upon a community, and sooner or later will share the fate of its proprietors, and terminate like them in disaster. If so few prudent merchants escape bankruptcy, as the

past history of our country unfortunately teaches us, how can banks, managed by reckless and inexperienced directors, escape similar misfortune, more especially if there is no real capital at the foundation, to make good the losses which improvidence or fraud may occasion? When money is abundant, it is easy for any set of men in tolerably fair credit to interchange their endorsements, and thereby raise the funds necessary to constitute a capital for a bank. When the notes on which they obtained the money become due, they are partially discounted at the bank, which they thereby created; but such an operation does not add any real capital to the community, although it may furnish more circulation, to the exclusion, perhaps, of more substantial currency. If a pressure comes on, protracted and severe enough to test the strength of the trading community, the funds of such a bank are reduced down to their primitive basis, viz., the promissory notes of the proprietors; and if a material depreciation of credit or property has meanwhile occurred, greater than the amount of their earnings, such a bank must inevitably go into liquidation, unless substantial men have been induced to buy its stock, for the purpose of investment. Has not this been frequently the case in past years, and are there not now many banks in the country which have really no substantial specie basis? It is therefore the obvious duty of bank commissioners, not only to investigate the nominal means and liabilities of the banks, but also the responsibilities and indebtedness of the stockholders of every institution, and especially the state of the balances in the individual ledger. Without these critical examinations, all legal restrictions are evaded until a suspension takes place, and the paper wealth is scattered to the winds.

Any one conversant with the mode of making up bank statements, will admit that very little importance can be attached to these periodical returns, as indicative of the real condition of the banks before or after the week on which they are prepared. In some of the States, it is true, that no stated day is appointed for which preparation can be made, and the statement must be made from the books of the condition of the banks at a date which has elapsed. But it always has

happened that some near friend of the executive intimates the time when it may be required, and the suggestion is circulated with astonishing rapidity. But in most of the States the return days are duly notified, and the banks have ample time to set things in order, and satisfy the community of the soundness of their condition. Discounting ceases, accommodation loans are called in, gold obtained on special deposit, circulation reduced, balances in the Eastern cities suddenly enlarged, and various other devices resorted to which make a formidable display on paper, and for the time being are true returns, as the banks will verify. But if a statement was required, shewing their condition a week or a month subsequent to this periodical return, quite a different aspect of affairs might be disclosed. Take, for instance, the banks in Ohio, Kentucky and Indiana, all great producing States, with common interests at stake. The banks of these States have extensive operations with each other, and as the returns are required at different periods, the same stock of gold may be used in the returns of each State successively by the temporary loan of it from one State to the other, and all be done in strict compliance with the law; and even the express offices between New York and these States might furnish some curious data as to the transit of gold to and from these points, and enable us to form some estimate of the value of these reports. The truth is, that our Legislatures may exhaust their ingenuity in making regulations for banks, but all their checks and restrictions and examinations will be of no avail, against the subtle contrivances of expert financiers, if the banks choose to resort to them. These suggestions, however, are offered, not with the view of implying that such arrangements are actually made by the banks of these or any other States similarly situated, but merely to shew that there is a want of congruity and general uniformity of the banking laws of the different States, which will allow much deception to be practised by such banks as may not be able to bear the scrutiny which the laws intended. And there is but one mode in which the true condition of the banks throughout the country can ever be fairly ascertained.

If our banking institutions would select out of their own number a delegation of intelligent directors, who would periodically and successively assemble at Boston, New York, Cincinnati and St. Louis, and interchange opinions with each other on financial subjects, it would probably result in some established system of management which would conduce to the general safety of the banks and the benefit of the trading community. Conventions of this kind have been called at various periods of commercial distress, and have always resulted in a concert of action and partial relief; but periods of prosperity are often as dangerous as those of pressure and panic, because, hitherto, the former have always been succeeded by the latter. In all the other concerns of life, religion, morals, politics, science, agriculture, manufactures, the learned professions, colonization, abolition, and even woman's rights, there are annual conventions in every part of the country, and for many of these objects such assemblages are productive of permanent good; but in monetary affairs, which affect the interests of every individual in the community, no concert of action is proposed, but each State pursues its own sectional or local policy, without any regard to the action of the others. Even in the separate States, within their own borders, there is such a contrariety of opinions and action, that needless embarrassments are occasioned by caprice and independent action of banks in the same city. How much serious mischief might have been prevented, if the several banks in the city of New York alone had held a consultation together, and ascertained their actual condition this season, instead of leaving it to a single bank to lead to an exposure of the dangerous expansion which they had reached. Although State Conventions of bank directors would be highly beneficial, yet the main object would not be attained without the organization of a National Convention, delegated by the State Conventions. We should then have an array of talent and experience in financial matters, which would command the respect of every banking institution in the country. A standing committee of such a National Convention might be formed, who should investigate the condition of every bank in the country, the wants of the districts in which they are located, the aggregate amounts of capital in circulation, coin and loans, the course of exchange, both foreign and domestic, the annual value of

imports and exports, the surplus and deficiency of crops, the influx of gold, the condition and prospects of the foreign markets for our agricultural products, and the practical operations of all our national measures of finance. Such a board, composed of individuals of talents, experience and comprehensive minds, would be of inestimable value to the country at large; and however arduous their labors might be, yet the commercial community can furnish men enough who would be equal to the task, and whose opinions would be adopted as soon as they were promulgated. Such a board of advisers would preserve a greater uniformity in our foreign exchanges than could be effected in any other way, for their opinions would rest upon the fundamental laws of trade — those of demand and supply.

We may have a restrictive system, or a more liberal policy, but those inexorable laws of demand and supply will affect the rate of exchanges both at home and abroad. If we will import the fabrics of Great Britain, France and Germany, we must send them in return articles of our own growth or acquisition of equivalent value, or pay for the balance in coin. We may defer the day of payment by the temporary expedients of bonds and stocks, but the ultimate adjustment must be made by the produce of our labor or in gold. In like manner, if the manufacturers of the East want the cotton of the South, or the wool of the Middle States, to carry on their operations, if they cannot pay for them with an equal amount of fabrics, shoes, furniture, &c., the balance must be adjusted by coin, or its equivalent. If the commercial interest requires the produce of the West for foreign markets to a larger amount than our farmers require of their foreign merchandise, the specie must be provided to pay the difference. Now these periodical balances are of sure occurrence annually, and might easily be provided for so far as the domestic trade is concerned, if the banks acted in concert, without occasioning those unnecessary fluctuations in exchange, or that transportation of gold so needlessly resorted to, which creates a temporary disturbance in the money market. It is true, that it is not for the interest of the banks in our commercial cities to equalize our domestic exchanges, as no inconsiderable amount of their

profits are derived from the discounts and premiums which they receive from their customers, but their circulation would be extended, and the community would be relieved from the heavy tax now paid for exchange. The New England banks keep their money at par by the Suffolk Bank system in Boston, previous to which it was at one per cent. discount there; and even in New York they are now at a mere nominal discount. The banks in the great valley of the Ohio might in like manner keep their currency nearly at par by using the large balances which they usually have in New York for the redemption of their bills which may reach there, and thus extend their circulation by the facility with which they could be converted into bankable funds. The rate of exchange on New York is rarely above half per cent., and often is down to par, while the cost of transportation in less than two days is only two dollars per thousand on gold.

The disturbing causes which agitate our monetary concerns are sufficiently multifarious and perplexing to require the watchful supervision of the most talented financiers. To avert impending dangers affecting the interests of the whole country, to warn the imprudent, to counsel the weak, encourage the timid, and remind the strong of their obvious duty in times of peril; all these efforts require firmness of purpose, enlarged views, acknowledged experience, and a tact which they only possess who have borne the brunt of past struggles, and who would therefore be selected as leaders of known ability. First, in frequency perhaps, and certainly in actual importance, is the disturbance occasioned by our vacillating national legislation. Under successive administrations, changeable as the popular will, we have high and low tariffs, loans and redemptions, a national bank and a sub-treasury, all antagonistic in their operations upon the business concerns of the country, and so rapid in succession that none but the young adventurer can accommodate himself to their ever-varying phases. The mature in business connections are uprooted or otherwise destroyed by this varying policy, and from this cause alone we witness more mutations in business concerns, than are produced by any other single circumstance whatever.

Another cause of disturbance in monetary affairs, may be traced to the varying state of our affairs with foreign nations, and the political effervescence incident thereto. The war with Mexico has placed in the executive chair one of the leaders in that conquest, by a majority almost unparalleled in the history of our country, in the vain belief, as it is to be hoped, that he would encourage fresh aggression, and further territorial aggrandizement; and his predecessor, an experienced statesman of profound sagacity, is permitted to retire to the shades of private life, together with most of the eminent men who composed his cabinet.

A third disturbing cause is the periodical changes in the English market for our great staples of cotton and bread-stuffs, the prices of which affect our exchanges more than all the other causes combined, and, consequently, either supply or diminish our stock of gold, to such an extent as to render money abundant or scarce, throughout our whole country. Now all three of these causes are generally disregarded by the great mass of the trading community, until they feel their pressure, so intent is each individual in the pursuit of his own particular branch of business; but they may all be foreseen by a sagacious observer, and their results anticipated. If, therefore, men of experience and enlarged comprehension, could be induced to accept such a trust as has been imperfectly delineated, and in due time forewarn the banking institutions of the country of approaching danger, much might be done to prevent the disasters, in which blind speculation is so frequently involved. Thus the violent contractions which we now occasionally suffer in our currency, might be partially mitigated, and a more alleviating policy be advantageously substituted. By the weight of their influence we might have an exchequer system, which would supersede the obnoxious sub-treasury scheme, which abstracts so much of our coin from the banks, depriving them of the means of discounting and circulation, but yielding no benefit to the government while locked up in its vaults.

It may be objected, that this arrangement would concentrate a monetary power in the hands of a few influential individuals, whose sway would be more potential than the arm of the government itself, and that the Jackson and Biddle warfare might again be renewed. But it must be borne in mind, that the plan proposed is a representative one, while that of the United States Bank was a monetary aristocracy. A consolidated power, based upon $275,000,000 of bank capital, would be greater in this country, than that of the Bank of England, which regulates the trade of that empire in its prices and exchanges. But it is not proposed to centralize this power, but only to create a board of advisers, whose opinions would be entitled to confidence, because they would be based upon a national, instead of local or sectional policy, thereby producing greater harmony of action in financial movements. The policy of having another national bank appears to be finally set at rest, and perhaps it is well that it should be so, since politics and finances should be two distinct concerns; it is far better that the policy of the government should depend upon the prosperity of the people, rather than that the latter should depend upon the measures of the government. The only form in which the fiscal concerns of the country can be beneficially aided by the government, is the one previously suggested, viz.: the establishment of a national exchequer, receiving coin at one point on deposit, and issuing bills, payable at any other in the country; thereby equalizing exchange, and superseding the necessity of transporting gold from city to city, or from east to west, or north to south.

Until some uniform national system of bank circulation is adopted, we cannot escape the evils of our present heterogeneous currency. The issues of our banks ought to be regulated by the state of our foreign exchanges, restricting them when gold is flowing out of the country, and expanding when it is coming in. But, if the banks in our commercial cities curtail their circulation, the vacuum is soon supplied by the country banks, who eagerly avail themselves of the opportunity, and thus nothing is gained, but, on the contrary, much is lost by having the substitute of a weaker currency; and when a pressure comes, these lesser banks add fuel to the flames, by their importunate cry for assistance or indulgence. The efforts of the banks on our seaboard, can produce but little perceptible effect in contracting the currency, if the great mass

of the interior banks persist in issuing their paper, as long as they have confidence in their customers, or the public are willing to receive it. We therefore need a general restraining power, voluntarily bestowed and cheerfully deferred to, which can be exerted for the general good, and until we have this, the currency will continue to be fluctuating, both in quantity and quality.

In England, after one hundred and fifty years' experience, they have settled down in the system of making the Bank of England the principal bank of issue, and this gives universal satisfaction and confidence. But in this country, where banks are incorporated by independent State sovereignties, the same system cannot be adopted; but we can, if we choose, appoint such a central power, from our own widely distributed institutions, which would act for the common benefit of all who would join in the alliance, and disregard the picaroons upon the currency, who could safely be abandoned to their fate. By proper regulations, the whole currency of the country might be reduced to that perfect regularity, which now characterizes the bank notes of New England, and which has been effected within twenty years, by the agency of one bank only, in Boston. With another central system in New York, another in Cincinnati, and a fourth in St. Louis, these remote points might converge to a common centre, and the harmonious action of the whole be completed. When the United States Bank was in operation, we had in that institution a conservative power, which checked all undue extension of bank issues; and if that unfortunate institution had not mingled politics in its influences and operations, and attempted to cripple the measures of our national administration, it might still have been in existence, to regulate our currency by its salutary restraints. That bank was established under the most unfavorable state of financial affairs which has marked the history of the country, since our revolutionary struggle; but how speedily were all our exchanges reduced to a perfect uniformity, and all the unsound banks compelled to close their accounts and disclose their insolvency. If its president had not aspired to a power greater than that of our national executive, and dispensed his favors with so lavish a hand, for the purpose of

partizan warfare, we might, even now, have been in the full possession of all those benefits which the Bank of England dispenses with such foresighted sagacity and conservative protection.

We are aware that this proposed general convention of banks, and appointment of a general committee, will be pronounced by some as chimerical, and by others as impracticable. So was the Suffolk bank system denounced in its incipient operations, and yet almost every bank in New England is now associated in the arrangement. The consequence is, that their bills are received in New York, at a quarter per cent. discount, while those of Ohio, Kentucky, and Indiana, equally solvent and substantial, are at a discount of one and a quarter per cent.

The banks, originally established in this country, were founded upon a purely specie basis. Limited in number, independent in position, and of commanding influence, their directors had a pride and dignity of character which did not need the restraints of legislation to insure integrity and fidelity in their management. Influenced, it is true, by strong party feelings, so universally prevalent in the early part of the present century; yet, they were men of high standing in the community, whose ideas of precision, punctuality, and method, were as starched as their ruffles, and as unyielding as their politics. These banks were "intended to be of public utility, and more particularly beneficial to the trading community," and the directors were content with six per cent. per annum for the loan of their money to the extent of $5000 to any one borrower, in the aggregate, for the limited period of two months only, but with such securities as would deter an individual in these modern days from asking for a discount. But when the banks became more numerous, the distinction of being a bank director gradually diminished until it faded away, and at last came within the reach of any aspiring business man. But competition not only annulled the distinction — it also introduced innovations of so antagonistic a character that the cautious were startled, and legislative restrictions were found to be indispensably necessary to protect the community from losses of various kinds. Each

succeeding Legislature witnessed the imposition of new restrictions, until the code of bank laws reached a complexity which it required a lawyer to unfold. Now, it cannot be denied, that it is the duty of government to protect the currency of the country, as much as it is to prevent the circulation of false coin, or the use of false weights and measures. Hence, it should provide against the issue of bank notes, which are not the representatives of their nominal value in coin, but many of these laws are so stringent as to render them onerous and even oppressive. Take, for instance, the model State of Massachusetts: its bank laws limit the rate of interest at six per cent., and yet the State can demand the loan of ten per cent. of the capital stock of any bank for the use of the State at five per cent. per annum, reimbursible in five annual instalments. They require ten per cent. of the amount in circulation, always to be kept on hand in specie, and levy a tax of one per cent. upon the amount of capital stock annually; and a return is made of the same property to the assessors in the towns where the stockholders reside, and is again taxed for municipal and other purposes. The law also prohibits each bank from paying out from its own counter any other bills than its own! If a bank has issued all the currency which it can lawfully do, and afterwards receives on deposit ten or twenty thousand dollars in bills of other banks, how can it pay the checks of these depositors? But the double tax law of Massachusetts is not so oppressive as the monstrous anomaly of Ohio, which imposes a tax on the securities deposited for the circulation, and also on the average amount of discounted paper, making about three per cent. on the capital of the banks, and yet limits their rates of discount to six per cent. per annum. This latter law, indeed, is so preposterous, that unless it is speedily modified, it will necessarily compel every banking institution in the State to close its business. It is such laws as these which stimulate reckless financiers to artifices and schemes of evasion, wholly at variance with the principles of sound banking. One of the earliest causes of disturbance in our monetary circles, was the creation of the small banks, and the facility with which their charters or corporate rights were obtained.

Experience has shewn, that whenever a pressure existed, it always commenced with the failure of some small bank in an interior town, where it had been probably located by some bank operator for the purpose of using its notes of circulation in some region where a railroad was in the process of construction, or perhaps buying wool or wheat in some interior State. When its issues had become so large as to attract attention, its notes were sent home for redemption, were dishonored, and the bank stopped payment. Other banks in the vicinity were suspected, and met with like treatment, and perhaps suffered the same fate. The public, finding that these bank notes were but the mere promises of a few irresponsible associates to pay their nominal value, lost confidence in some of the best institutions, and confidence once destroyed, the stock of coin became inadequate to meet the general rush for redemption, and much embarrassment ensued. But in addition to the trouble which these small banks have created, there has also been disturbance in the money market, growing out of the competition of our larger banks of recent formation, with those of more established credit. In their eagerness to procure depositors and customers, or secure large dividends, and assume their share of notoriety in the financial operations of the day, they have discounted with a liberal profusion, which disregarded the amount of coin on hand, or the daily receipts of the bank; and trusting to the abundance of money in the market and the facility with which it could for the moment be obtained, they disregarded the contingencies which so suddenly crippled them, and have been compelled to seek for aid from those who were more prudent than themselves.

Instances of this sort are of very recent occurrence, but public censure is not severe or lasting enough to prevent their repetition. Independent, however, of their own loss of standing, such banks instigate individuals to similar expansions of credit, and encourage speculation to a dangerous extent. The facilities so readily obtained are as recklessly invested, and the inflation becomes so general that it is hazardous to arrest its progress; but this system must ultimately terminate in disastrous results. There are enterprises

enough at the present moment, actually undertaken to tax the labor of the next twenty years to pay for, and each additional undertaking opens a new vista to still more magnificent projects. Speculation is taking a deeper hold on the public, and the aspiration to grow suddenly rich is almost universal. The desire of grasping wealth, at a single clutch, is visible in almost all the walks of life, and it must eventuate in the wreck of many sanguine hopes, and be only the repetition of the events of former years; fresh in the memory of many of those who are again pursuing the same phantom that formerly deluded them. The history of all our bank pressures and panics has been the same in 1825–37 and '45, and the causes given in two simple words — universal expansion. We are too apt to attribute them to excessive importations, and the consequent absorption of our gold to pay our foreign balances, but these are merely auxiliary causes. When money is redundant, and capital unemployed, temptations are offered to the adventurous, and speculation becomes rife in stocks; lands, railroads, mines, and the countless fancy stocks which promise such flattering results in such a brief period. Nor is this speculative spirit confined to our commercial cities; it pervades the whole country, and a fictitious value is affixed to everything animate and inanimate, moveable, or fixed, which has any value at all. The property thus enhanced in value, without reasonable cause, is either sold to some irresponsible person, or perhaps mortgaged as security for some other speculation; pay-day comes round, the sober second thought discloses the infatuation, and the dreamer awakes to the perception of his true condition. The property is sacrificed, in other words, sold for its specie value, and the speculator is ruined, involving in his fall the credulous individuals who have trusted in his supposed forecast or his plausible representations. All classes of society feel the shock more or less, and the general outcry is against the banks, as the origin of the evil. These, again, are but auxiliaries. In the onset, they had their money to loan, and dispensed it freely, while it was in their power, as it was their duty to do, in order to secure good dividends for their stockholders; but it was the excess of confidence out of the banks which

first induced speculation, and an expansion of credit to its utmost tension. The advanced prices of property of every description, the impetus given to the construction of railroads and steam-ships, the countless projects of copper mines, coal mines, and iron mines, and the innumerable fancy stocks of all kinds, together with the extravagance which grows up in the style of living and habits of personal expenditure, the nameless artificial wants and luxuries of society, have all combined to create a demand for money, greater than our increase of wealth, when measured by its specie value. It is these things which lead inevitably to a stringent money market — then a loss of confidence, impaired credit — temporary sacrifices, and final insolvency. And it is best that it should be so, for the occasional sifting of the chaff from the wheat has always been followed by periods of well regulated trade, reasonable profits, and that degree of thrift with which men of integrity and substance are contented. Trade flows on its natural channels, neither impeded by artificial barriers, nor impelled by the force of speculation.

It must be acknowledged by all, that an uninterrupted course of prosperity, caused by a redundancy of currency, and the consequent supply of bank facilities, would, in the issue, be prejudicial to the permanent welfare of the country. We have had experience enough, during our intervals of success, to note the consequences of a prosperous career, and the benefits have never been equally shared by the community.

Bold and reckless speculators, monopolists in every branch of trade, wealthy capitalists, may amass fortunes; but the laboring classes, salaried officers, annuitants of every sort, professional men, medical, legal, and clerical, derive little benefit from the golden harvest, but always share their full proportion of the reverses, which inevitably ensue.

The moral tone of society is also deteriorated by the continuance of prosperity; luxury, with its enervating influence, extravagance, with its lavish expenditures, undermine the foundation of our moral strength, economy and integrity, and corrupt, not only our morals, but our legislation. Reverses, then, are the barriers against approaching ruin, and banks, managed by conscientious and prudent directors, are the great

conservatives, which arrest the proclivity of financial profligacy to national destruction. What reason is there then, in the popular outcry in the dominant party against banks, when it is obvious that they are the only safeguards for the protection of the industrial classes?

The daily wages of the laborer and the operative have never yet kept pace with the high prices of produce or manufactures; nor do our seamen always participate in the advanced rate of freights, in our commercial marine, in what are termed prosperous times. We have established, by law, gold and silver, as our standard of value, and when we advance the price of everything else about us, we obstinately adhere to the same valuation of the wages of labor. Hence, the numerous "strikes" among the operative classes; and the justice of their demands for higher wages cannot be denied, however objectionable we may regard their mode of seeking redress. If the standard value of wages is to be estimated partly by the cost of subsistence, we ought to advance the rate when prices are high, as well as reduce them when the market is depressed; but although the latter course is frequently adopted, the former is submitted to with evident reluctance.

But we return from this digression. We have shewn that there are three systems of banking in vogue in the United States, and the question arises, which of the three is the best? which affords the greatest security to the public, consistently with the just remuneration to those who embark their capital in the operation? We can have no hesitancy in stating our predilection to be altogether in favor of the specie system, in preference to the safety fund system, which has been found to be inadequate, or the free banking system, which has but a paper basis, although it may consist of government securities only. We have recently witnessed the tendency of our Legislatures to enlarge the class of bonds which might be taken as sureties for circulation, and a bill has been passed by the Legislature of New York, (not yet signed, however, by the governor,) allowing city stocks to be taken as deposits for bank issues, and it is further proposed to take railroad bonds for the same purpose. Should these plans be adopted by other States, we shall then be supplied with a basis, as expansive as the wildest speculator could desire. A few roads like the New York and Erie, the Albany and Buffao, the Reading, the Baltimore and Ohio, the Ohio and Mississippi, and the Illinois Central, would supply all the materials for banking operations, and we might increase our banking capital to $500,000,000, if parties chose to embark in such a visionary scheme; but would the real wealth of the country be thereby increased? The banks in Massachusetts can now legally issue $33,000,000 more paper than they now have in circulation, if the wants of the community required it; but "circulation does not keep pace with the advance of business, for the plain reason that it is used only in few, and those only the smaller commercial transactions." Why then should we place it in the power of a few bank operators, to flood us with a rag currency, when the notes of solvent banks can be readily obtained by all who have the means to procure them? The committee on banks and banking, of the present Legislature of Massachusetts, close their admirable report with the following judicious warning.

"The committee have freely commended the present system of banking, and the code of laws that govern it, and have treated its circulation as the best and safest of any now known in the country. The banks, however, are not beyond the reach of adversity. With men, and other business corporations, they are on the high tide of business, and tempests, coming from distant quarters, whelm them beneath the waters, without any fault of their own. Channels of trade now full, may dry up; important departments of industry may be broken down; the earth may not yield its fruits through the unpropitious seasons; wars may dam up or reverse the great currents of trade; embargoes and non-intercourse may sweep commerce from the ocean; and when the whole community is overwhelmed with embarrassment, by events so great and controlling in the commerce of the world, it is not expected that our banks will escape. They are not perfect, they are the best we know how to establish. The leading duty of the government is to provide for the safety and convertibility of the circulation." With such a policy as these views present, it is no wonder that Massachusetts bank bills are current throughout the whole country.

The present period is remarkably favorable for the establishment of all our banks on a specie basis. For the last four years gold has been accumulating in the country, at an average rate of twenty-four millions of dollars per annum, after deducting the amount exported to foreign countries, and the prospect now is, that this large supply will still further be increased. If, then, gold should forthwith take the place of all our five dollar notes and smaller bills, and afterwards those of ten dollars, there would be such a distribution of it throughout the country, that we should be protected from all hazard of panics, and render the community more secure against the circulation of spurious bills. The great producing States of Ohio, Indiana, Illinois and Michigan, would no longer be flooded with a paper currency as they now are, but would at once enjoy the same privileges as those of the New England States and New York, Maryland, Kentucky, South Carolina and Louisiana.

It has been previously remarked, that the safety fund system was found to be inadequate for the perfect protection of the community, and so far as the experience of New York has furnished the evidence, we have the authority of the comptroller of the State, in 1849, that "the system was wholly inadequate for the object intended." But in Ohio, where the system is in operation, it is found to afford universal satisfaction. But the reason of this is, that the specie basis is interwoven as a main feature in the system, and the branches of the State Bank, as well as the independent banks, are required to have "at all times on hand in gold and silver coin, or their equivalent in value, one half at least of which shall be in gold and silver coin in its vault," an amount equal to at least thirty per cent. of the amount of outstanding notes of circulation. Accordingly, in their last reports, the banks return $3,854,000 specie fund, against a circulation of $11,400,000, or more than thirty-four per cent., besides a safety fund of $875,000.

But the bank system of this State was so carefully arranged in 1845, both in regard to the apportionment of the capital among the districts of the State, and guarded by so many checks and restraints, that it cannot be regarded otherwise than as one of the most perfect in the States. Unfortunately, however, the legislation of the last two years has been characterized by wanton animosity against the banks, and their unjust tax laws must necessarily destroy the existing banks, and convert these chartered institutions into private banking establishments. The banks in the State are not only among the safest and best in the country, but they hold themselves amenable to all just laws, and have never bid defiance to them. But the "Crow Bar" law, as it is styled in Ohio, violates the Constitution of the United States, which prohibits any State from passing an "*ex post facto*" law.

Now, a law, which imposes a penalty for a past delinquency, is something novel in legislation, and the "Crow Bar" law "does this, by imposing a penalty of five per cent. on all taxes, which are now unpaid, and authorizes the treasurer to break open any safe, vault or door, and take possession of as much coin, bank notes, bills of exchange, or other property, as may be required to settle his demand, notwithstanding the guarantee in both the State and United States Constitutions, of the 'security of persons, houses, papers and possessions against unreasonable searches and seizures.'"

Certainly the banks possess the same rights which individuals enjoy, of appealing to the highest judicial tribunals, to ascertain the validity of such a law, and finding it unconstitutional, to resist its enforcement by all proper legal measures. Beyond this, no effort has yet been made to evade their just share of the public tax, and yet this summary process of violence is legalized, and the plainest constitutional guarantees trampled upon, without hesitancy, or, rather, with a boldness which only characterizes despotism. Such a law, however, will never be sustained by the good sense of the people, who have never indicated any inclination to carry on an unmanly and predatory warfare even against the banks, and it could never be enforced without the aid of elective judges, who allow their partizan feelings to sway their decisions, in violation of all the principles of equity embodied in our jurisprudence, and confirmed by a long line of venerated judges who have filled the highest judicial stations in our country. Should, however, these perverse decisions of the Ohio judges be carried into practical

execution, and the contracts stipulated in the charters of the banks be declared nugatory, then inevitable destruction must await them all, for they cannot sustain the imposition of such an exorbitant tax.

In the imperfect review of the two systems of Massachusetts and Ohio, here presented, we have cited the strongest illustrations of the relative merits of the specie basis, and the safety fund scheme, and it may be a matter of serious consideration, whether these two systems of banking are not the very best for the permanent prosperity of the country, viz.: a limited currency in the older States, based upon capital paid in coin, and in the States of more recent date, a circulation based upon coin, and the security of State stocks. In the great valley of the Ohio there is a large amount annually required for the purchase of produce, and for which really substantial currency is preferred to coin, and the notes of Ohio, Indiana, and Kentucky are more readily taken than those of the New England States and New York. Great facilities are thus afforded to trade, and the value of the annual crops is greatly enhanced, and added to the increasing wealth of this region. The constant accumulation of capital in the Eastern cities constitutes an effectual check against any undue expansion of currency in the Western States, and the use of it is confined to payments for their own produce, or domestic speculation. Any diversion of it into extraneous channels, is speedily returned to its fountain-head.

It is a remarkable trait in the character of the inhabitants of the Western States, that they all prefer the paper of their own State to that of any other, and even the banks reject Eastern notes, when in fact they are worth half per cent. premium, for the operations of exchange. But Ohio, Kentucky, and Indiana have such close business connections, that the paper of these States enjoys a widely extended circulation, and, with that of Virginia, is all bankable in Cincinnati, notwithstanding the laws expressly prohibit the circulation of any bank notes out of the State, of a less denomination than five dollars. These four States, with a bank capital of $31,200,000, have a circulation of $38,314,000, and specie on hand for redemption $12,740,000, but the amount is wholly

inadequate to purchase the annual surplus products of these States, and the bills of the Eastern States are freely used in the interior for purchases, and must be vastly more current, while the various railroads are in the process of construction throughout the West.

The large amounts of currency required by these gigantic projects, many of which are now in the course of active operation and construction, will call for a supply which it will be difficult to meet without the aid of Eastern bills, for the Western banks have already issued their quota of three of paper for one of coin, and without this auxiliary supply, we fear that the "public stock banks" of Indiana, and the "free banks of Illinois" must supply the vacuum; whereas the New England banks alone can issue seventy millions more currency, and still be within the limits of their chartered rights.

In relation to the free banking system, little need be said, beyond the comments in the report to the Massachusetts Legislature, one extract from which has already been quoted. In reference to stocks pledged as securities for circulation by the free banks, it says:

"These stocks, when obtained and deposited according to law, do not furnish so good a currency as our present system provides. The value of a currency consists in its immediate convertibility into specie at the will of the holder, not on the fact that the bill may be secured by a mortgage, which will in time, perhaps after a lawsuit, bring him the specie; but whether the holder can at any time, for the asking, have his bill redeemed. The bank, promising to pay, needs to be in constant readiness to fulfil its promise, and it is obvious that a bank, with its capital guardedly invested in a commercial loan, that is being paid back on its counter every day, is in a more eligible situation to pay its own promise, than it would be if a large portion of its capital were wrapped up in stocks, and stowed away in the pigeon-holes of the State auditor. The stocks may be good, but they are out of the reach of the promisors for their present wants. Delay in payment is a failure to fulfil the promise, and affects the currency as injuriously as doubt about its ultimate security."

We commend the preceding extract to the deliberate con-

sideration of all free banking legislators, and we think that they will find it hard to gainsay. Now, if these objections can be alleged against State stocks as securities, how much stronger are they against the bonds of counties, cities, and towns, against mortgages of real estate and railroads. If indeed the latter are adopted as collateral securities, we see no impediments in the way of the construction of the Pacific railroad. The projectors have but to organize, and we believe they have done so already, build a section of their road, and without further capital than a good paper-mill, some bank-note plates, and a printing-press, they can commence operations as soon as the exploring engineers have completed their surveys and reports. There is now in the State of Michigan, a railroad corporation, with a bank attached to it, but whether intended to be the locomotive or the baggage car, we know not; but it is a very thriving bank, and with $100,000 capital, has $93,000 specie in its vaults, and enjoys a circulation of $279,000. The railroad part of the business has not, we believe, yet been commenced, but we wish that there were more of such banks in the same State to supplant the circulation of the "wild-cat" money there.

The advocates of this system in New York still adhere to it with persistence, notwithstanding all their early experience of its inadequacy, and their more recent loss by the James Bank, and the Bank of New Rochelle, whose pledged bonds and mortgages was sold at twenty-eight and forty-one per cent. of the amount for which they were deposited. But since this system was introduced, there has been no protracted crisis to test its strength. With the exception of the pressure of 1845, the country has enjoyed unexampled prosperity, but we cannot expect this to continue always. If in the course of events, our cotton crop should fail, as the corn and potato crops did in England and Ireland in 1846, how speedily would our surplus supplies of gold disappear, and with it the false estimate we now place on all our possessions. Our inflated currency would then find its proper level, stocks would depreciate, the prices of everything would fall, our railroad constructions would be suspended, and the amount expended remain for a time, at least, a dead weight on the community.

But we have no wish to pursue the subject, for the consequences must be obvious to every mind. Before we dismiss it, however, we must re-state one other objection to the system; and that is, that it permits bank operators in distant places to establish banks in other States, to issue bills for circulation only, disregarding the other privileges of banking, and by establishing an agency in some commercial city, New York, for instance, for their redemption at one half or even one per cent. discount, collect large amounts and issue them again, and by this repeated issue and redemption levy a heavy tax upon the community. We have recently experienced enough of these operations in the Indiana and Illinois currency, which was at one time foisted upon New York as a circulating medium, but it was indignantly driven home again and not permitted to supplant their own free bank notes.

The truth is, that the payment in specie of bank notes on presentation is the indispensable requisite of sound banking. Without this basis, bank notes are mere tokens, current it may be in their own State or neighborhood, but of depreciated value elsewhere. A. may purchase goods of B., and tender him in payment therefor an inconvertible currency. It is a mutual contract, and the parties understand each other. B. however has occasion to purchase goods in another State of C., and must submit to a discount on the currency he has received of A., and makes his contract accordingly with C. to that effect. But C. has to import his goods from a foreign country, and A.'s inconvertible paper is of no value to him for this purpose, and he must employ other means to procure his foreign supply, and is thus compelled to obtain exchange or gold, to deal with his foreign correspondent. Thus the bank notes of A. are at first sold at a discount, and finally found useless by the importer; whereas, if they had been redeemable in specie, they would have passed at nearly par through the hands of all parties. When the value of our imports exceeds that of our exports, our coin or our public stocks must supply the deficiency. So long as the public stocks may command favorable prices in Europe, and money can be obtained there at lower rates than at home, the country is benefitted by the operation, since the transactions furnish

domestic capital on favorable terms; but when specie is required, the currency throughout the country is immediately affected; the money market becomes stringent, and prices decline; producing a greater loss, perhaps, in the aggregate, than the amount of previous profits on the imported goods. If, however, specie was the basis of all transactions, or in other words, convertible bank paper, the value of property would remain more stationary, and there would not be such constant fluctuations in trade. If we have a currency based upon stocks, the holders of bank notes may be ultimately secure of the payment of their bills, but the majority of the banks would be of ephemeral existence, since one after another they would be driven into liquidation, and all of them might be so if any concerted effort should be made to produce such a catastrophe. At any rate, they would be compelled to keep their circulation down to so low a point, that they would derive but little benefit from their issues.

Even the Bank of England could not maintain the par value of her notes in Great Britain; although possessed of such immense wealth, backed by the resolutions of her House of Commons, and declared by it to be of equal value to the coin of the realm; and their final depreciation reached twenty-five per cent., notwithstanding the confidence of the community in the bank's solvency, the support of the government, and the management of its revenue.

We reiterate, that gold and silver are the only conservative power which we have to regulate the state of our currency, and to prevent that ruinous inflation, in which our banks would indulge, but for this check upon their issues. All other kinds of property have a fictitious value, which, in periods of continued prosperity, is enhanced beyond the limits of reason or common discretion. At such times the banks themselves aid the popular delusion, by stretching their utmost spread of canvas to court the favoring breeze; but when caught aback, are the most alarmed at the perils which they are sure to encounter. Instead of becoming auxiliary to others, they but increase the panic and aggravate the troubles which foresight might have prevented. Our experience has shewn, that the contraction which succeeds an uninterrupted

course of prosperity is more disastrous than if the community had never enjoyed any bank extension. If the effect of these fluctuations was confined to the speculators who originated them, there would be little to excite public anxiety or sympathy; but the misfortune is, that they reach the industrial classes of society, and all who are dependent on their daily labor for the means of support. When the banks fail to redeem their circulation, it is not the merchant, the manufacturer, or the large trader who are the sufferers — their funds are in safe deposit; but the laborer, the artizan, and the small dealer, who receive their ten or twenty dollars per week, who are despoiled of their hard earnings. It is not, therefore, surprising, that, among those classes of society, there should exist a jealousy of banks, when they are always in jeopardy from bankrupt or counterfeit notes, since, in the interior, most of them are unacquainted with the character of the currency which is proffered them in payment. For one, we have for a long time entertained the opinion, that no bank should be allowed to issue a bill of a lower denomination than five dollars, and, after a reasonable interval, none under ten; and this regulation would supply the country with gold and silver, which the aggregation of wealth is quite sufficient to furnish. We should then accumulate a stock of coin in the hands of the people, large enough to aid the banks when a foreign demand drained us of our specie, and which would not last beyond a single season, and thus prevent those dreaded periods of panic which have engulphed so many substantial fortunes by their sudden advents and ruinous effects.

"Labor," says Adam Smith, "was the first price, the original purchase-money, paid for all things. It was not gold and silver, but by labor, that all the wealth was originally purchased." "Of the products of the earth useful to the life of man," says Locke, "nine tenths are the effects of labor; nay, if we will rightly estimate things as they come to our use, and cast up the several expenses about them, what in them is purely owing to nature and what to labor, we shall find that in most of them, ninety-nine hundredths are wholly to be put on the amount of labor."

Labor creates capital by its accumulated products, co-operates in facilitating production, and then combines in acquiring greater profits, which again act as incentives to further accumulation. The acquisition of wealth is stimulated by the desire to rise in the world; hence, the tendency to save and amass, and the origin of economy and parsimony. "Labor and capital are as essential to the growth of opulence and civilization, as the heart and the lungs are to animal existence." Now, if by any process, we give to capital any undue relative preponderance over labor, we disturb their concert of action; and we know no method by which this is more frequently effected, than by the factitious means of enhancing the value of the former, while the latter remains stationary. When, by the expansion of our currency, we double the value of property, temporarily although it may be, we do not, at the same time, render equal justice to labor. Besides, sudden appreciation of property tends to habits of extravagance, and the elementary and most enduring basis of prosperity is undermined. Hence all sudden expansions are disastrous to the true welfare of a country, for a sure and slow growth alone ensures permanent advancement.

Now, which of the three systems of banking, which we have been considering, is the most likely to produce this artificial inflation? We think there can be but one answer to the question. Gold is the proceeds of labor and capital combined, and simply gives a remunerative return to those who procure it. It has for centuries been the standard of the civilized world, and neither deteriorates by time, nor depreciates in value. And although for a short period it has been showered upon us, with Danæan profusion, from California and Australia, yet no depreciation has yet taken place to alarm the capitalists, either at home or abroad. If there ever should be such a thing as an undue expansion of this medium, we have only to re-adjust the wages of labor, with reference to the cost of a comfortable subsistence and a reasonable profit; and capital and labor will again be placed in their true position and natural equality.

But we have less cause of solicitude about the prospective value of gold, than we have in regard to the present state of

our currency. The multiplication of banks is going on with fearful rapidity, some originating with parties who have surplus capital, and wish to facilitate their own and their neighbor's commercial transactions; with others, who wish to invest funds for the sake of the income; with another class, who are solicitous to create bank capital for the supply of their business wants; and lastly, with those whose sordid motive is that of speculating upon the community, by foisting upon it notes of circulation, and then decrying their value, to purchase them back again at a discount, and finally to abandon their redemption on any terms.

We have in the United States, at the present moment, about one thousand and seventy-five banks, with capitals amounting to $280,000,000, and a circulation of $175,000,000, predicated on less than $60,000,000 of specie. The discounted paper of these banks is probably not less than $500,000,000, and our bonds and stocks held in Europe are probably near $300,000,000 more, making an aggregate of about $800,000,000. Now the value of this immense amount of credit is affected by the condition of our money market, and a diminution of ten per cent. of its amount is equivalent to the loss of one of our annual cotton crops. Should we allow a few reckless adventurers to trespass upon the rights of others, and by the agency of a few small banks, scattered throughout the country, disturb our financial equilibrium, and depreciate the value of property, by causing needless fluctuations?

To render banking institutions conducive to the permanent prosperity of the country, with such mischievous influences in operation, is as visionary as would be the expectation of victory in a battle, fought by an army of volunteers, each company acting under the independent orders of its own captain, without concert of action, against a disciplined force, marshalled by the hero of a hundred conflicts.

We arrive, then, at the conclusion, that however perfect the banking systems of Massachusetts and Ohio may be, there is something further needed to promote harmony of action, and consentaneous movements in our financial operations. Without a central organization, voluntarily created by the banks,

and adopted as a permanent affiance, our banking institutions will continue to be perturbing forces, without the central sun of our planetary system, to retain the revolving bodies in their orbits, and prevent devious movements. In the language of that valuable journal, the Banker's Magazine, "This all-important banking interest requires a combined effort in its direction, and it is only by a concert of action among its managers, that it can be made to accomplish the most good."

BANKS AND BANKING

IN THE

UNITED STATES.

PART II:

RELATING TO THE STATES

OF

KENTUCKY, OHIO, INDIANA, AND ILLINOIS.

BY

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Banking-U.S.

PART II.

BANKS AND BANKING,

IN THE UNITED STATES.

In some former remarks, on this subject, a cursory examination of the different systems of Banking in operation, in the United States, was briefly undertaken; and the practical merits and demerits of each system, were impartially described. The Banking systems of the older States had been frequently discussed, in the leading periodicals of the day, and by sagacious and well-informed, practical writers of pamphlets, on this all-important subject. But the history of the fiscal operations of the more recent States, has been but imperfectly commented upon, and this will now be attempted in the following pages.

In the Eastern States, comparatively little was known, in regard to the financial condition of the great producing States of the West; and even this meagre information was tinged with prejudice, naturally created by the injudicious legislation, which characterised the early history of these States. Within a few years however, the attention of the Eastern capitalists has been directed to the various railroad projects, which have absorbed so large an amount of capital, and the great productiveness, and annual increase of the trade of the States of Ohio, Kentucky, Indiana and Illinois have occupied a larger share of public attention—discovering their wants, and their resources, and unfolding much that it was for the interests of all parties, more clearly to understand and profit by.

We propose therefore to review the Banking History of these four important States, to point out the past and present defects,

and to offer such suggestions, as the examination of the subject may present. Conscious, that we shall differ in opinion from many, who are now in active positions of influence, and monetary power; we shall however, none the less freely express our opinions, although they may clash with those which direct the fiscal concerns of this wide field of labor and enterprise. Claiming, as we do, the advantage of the varied experience which an active life, devoted to commercial pursuits and monetary negotiations, both at home and abroad, have amply furnished, we shall write independently of all surrounding considerations, and suggest no measures, excepting those which the public exigencies require, and sound policy dictates. And whatever may be found wrong in practice, or inconsistent with sound Banking principles, we shall freely comment upon, however wide, or general may be the departure from the system we advocate.

The early Banks, established in Massachusetts and New York, were founded upon the sound principles of the mother country, and for nearly fifty years no innovations were introduced to impair the public confidence in their security; although some modifications in their arrangement were adopted, corresponding with the progressive liberality of the age, and the expansive spirit which foreign commerce naturally engenders and promotes. These Banks were few in number, limited in the amounts of their capitals, and managed by wealthy and discreet stockholders, who were contented with the legal rate of interest for the use of their money. Their capitals were not borrowed; but were the contributions of the surplus funds of themselves and of their associates, and which were loaned on paper, known to represent the value of solid property, or staple merchandize, required for consumption or export. Every transaction had its distinct limit, as well as character, and the entire capitals of these Banks were converted into cash, five or six times annually. By this system, the discounted paper of the Banks passed through a constant mutation, and was consequently subject to frequent scrutiny and realization. As the wealth of the country increased, the Banks were extended in numbers, localities, and capitals; sometimes commensurate with, but more frequently in advance of the exigencies of the community.

While the Banks of the Eastern States were of slow growth, and were founded on the surplus means, which commerce and the mechanic arts had accumulated, and aided by the frugality and thrift of the people, in the Western States, it appears to have been the unfortunate, and ill-judged policy to establish Banks on paper security, without exacting the indispensable requisition of bona fide cash capital, paid up in coin. The consequence was, that after a brief existence, most of them failed; and the dreary catalogue of these defunct institutions furnishes the most complete illustration of the folly of establishing Banks, without a specie capital. The great principle, that Bank note paper must be convertible into specie, or it is nearly worthless, was wholly lost sight of; and although the Corporators were possessed of broad lands, fields of corn and grain, cattle, swine and live stock, of every description, yet all these were insufficient, for Banking purposes, so long as Gold and Silver were wanting. Their live stock, and crops of corn and grain, were marketable articles; but they were remote from the points, where they could be converted into money, since the modern facilities of railroads were then only in the dim perspective of the hope of the most sanguine. In the earlier period of the history of the Western States, individuals had no claims to a financial credit, which a business man in the Eastern cities would regard as available. Possessed of fertile lands, which a distant period would render valuable, under judicious cultivation, yet without avenues to these remote treasures, they were not available as funds within six or twelve months to the parties east of the Alleghanies, with whom they wished to make contracts. True as this was, in relation to individuals; in just the same degree, was it true in regard to States. Nothing was permanently established; the population had neither become fixed in locality nor intention—it had established no permanent credit, by even a few years of punctual payments of their obligations, nor had the States any settled policy of legislation, by which their future course could be determined. Their only income was derived from taxation upon the lands, which were within their limits, and the collection of even this scanty revenue was deferred from year to year, so that no certain reliance could be placed upon its immediate receipt. And yet upon such uncertain foundation, some of these new States issued bonds

for furnishing Bank Capital, and borrowed money on disadvantageous terms to furnish facilities for speculations in wild lands. In the South Western States, this delusion extended to a ruinous amount, not less than forty milions of dollars having been borrowed for this purpose in Europe, and in the Eastern States; the disastrous consequences of which continue to the present hour. But our present purpose confines us to the Middle Western States, and we commence with the most populous—Ohio.

The history of Banking in this prosperous State, furnishes an apt illustration of our preceding remark, that in the new States, there was no settled policy of legislation, by which their future course could be determined. Shortly after the adoption of the Constitution of Ohio, and its admission as a sovereign State into the Union, a Bank was chartered under the name of the Miami Exporting Company, the Bill for which was passed in April, 1803. Banking operations were a secondary object with the Company, "its main purpose being to facilitate trade, then suffering under great depression," and five years elapsed, before the first regular Bank was established by the charter of the Bank of Marietta in 1808. During the same Session, the proposition of founding a State Bank was considered, and reported upon, and the final result was the establishment of the Bank of Chillicothe. From that period, charters were granted to similar institutions, until the year 1816, when the great Banking Law was passed, incorporating twelve new Banks, extending the charters of the old ones, and making the State a partner in the profits and capital of the institutions thus created and renewed; without any advance, on its part, of any funds for this purpose. The new Law required, that each bank was to set apart, one share in twenty-five, for the State, without payment therefor, and each Bank, whose charter was renewed, was to create for the State, stock in the same proportion. Each bank, new and old, was required annually to set apart, out of its profits, a sum, which at the expiration of the charter, would amount to one twenty-fifth of the whole stock, which was to belong to the State: and the dividends coming to the State were to be invested, and re-invested, until another twenty-fifth of the stock was State property—this last provision was subject to change, by future legislators. The

interest of the State was continued in her Banks, until 1825, when the Law was amended, to commute her stock into a tax of two per cent. upon all dividends made up to that time, and four per cent. upon all made thereafter.

The system of taxing Banks, commenced in Ohio, in the Legislature of 1815, by a levy of four per cent. upon their dividends, but the law was virtually nullified the next year, by exempting all Banks from its operation, which accepted the conditions of the Act of 1816.

The establishment of the second Bank of the United States in 1816, and the location of one of its branches in Cincinnati, in January, 1817, and another at Chillicothe, in October, occasioned the well-known controversy between the State of Ohio and the Bank of the United States, in regard to the arbitrary right of taxation; and although the State was signally defeated in her attempts to collect an unjust and illegal tax, yet after an interval of thirty years, she is again waging another war of extermination, against Banks of her own creation, and which are the sinews of the prosperity of her own citizens. The imposition of her modern tax is more insidious in its form of expression, but none the less oppressive in its practical operation. With the branches of the United States Bank, the State declared open war, and passed a law imposing a tax of fifty thousand dollars on each of the two branches at Cincinnati and Chillicothe, if they continued to transact business after the 15th September, 1819, and authorized the State Auditor to issue his warrant to collect the tax. As the narrative of this controversy may be new to some of those, who are now agitating a similar question in the legislative halls at Columbus, we briefly sketch it.

The law imposing this tax of $100,000, was passed with great deliberation, and by a full vote. But the branches of the United States Bank did not suspend their operations, and the Auditor prepared to collect the money. To prevent this, the Bank filed a Bill in Chancery in the United States Circuit Court, asking for an Injunction upon the Auditor of State, to restrain his proceeding in the matter of collection. The Auditor, by legal advice, refused to appear, on the day named in the writ, and of course the Court allowed the Injunction; but required bonds of the Bank, to the extent of $100,000, which were given. As the day for collection approached, the Bank

sent an agent to Columbus, who served upon the Auditor, a copy of the petition for Injunction, and a subpœna to appear before the Court at a subsequent date; but he had no copy of the writ of Injunction, which had been allowed. This petition and subpœna, the Auditor enclosed to the Secretary of State, who was then at Chillicothe, together with the warrant, for levying the tax, requesting the Secretary to take legal advice; and if the papers did not amount to an injunction, to have the warrant executed; but if they did, to return it. The counsel advised, that the papers did not amount to an injunction, and therefore the State writ was given to the Sheriff, with instructions to enter the Banking House, and demand payment of the tax, and upon refusal thereof, to enter the vault and levy the amount required. The officer was directed to use no violence, but if he was opposed by force, to go at once before a proper Magistrate, and depose to the fact. Accordingly the officer, taking with him competent assistants, went to the Banking House and first securing access to the vaults, demanded the tax; payment was of course refused, and notice given of the Injunction, which had been granted: but the officer, disregarding this notice, entered the vault of the Bank, and seized, in Gold and Silver and Bank Notes, ninety-eight thousand dollar, which he paid over to the Treasurer of State. The officers concerned in this transaction, were very properly arrested, and imprisoned by the United States Circuit Court, for a contempt of the Injunction, granted by them, and the money taken was restored to the Bank. The decision of the Circuit Court finally came before the Supreme Court at Washington in 1824, and was there affirmed; whereupon the State of Ohio submitted. During the pendency of this suit however, the State Legislature passed four Resolutions; in consequence of which, the Bank was for a time deprived of the aid of the State Laws, in the collection of its debts, and the usual protection of its legal rights. An effort was also made to effect a change in the Federal Constitution with reference to taking this particular case out of the jurisdiction of the United States tribunals, but fortunately the State of Ohio failed to accomplish its object, in this instance.

After 1825, no change was made in the Banking Laws of the State, until 1831, when the Bank Tax was increased from four to five per cent. Subsequently two important Acts were passed by the Legislature; one in 1839, appointing Bank Commissioners, to examine the various Institutions, and report upon their condition. This inquisition was resisted by some of the Banks, and much controversy ensued, both in and out of the General Assembly. The other measure was the adoption, in 1845, of a new system of Banking, establishing a State Bank, with branches, on the safety-fund system, (the State, however, owning no part thereof,) and an Independent Bank system, requiring State Stocks to be deposited with the State Treasurer, for the full amount of Bank issues.

In March, 1851, the General Assembly passed an Act, authorizing *Free Banking*, limiting the amounts to a minimum of $25,000, and a maximum of $500,000, and requiring the amount of notes issued to be secured for the full sum, by the deposit of the stock of the United States, or the State of Ohio; as in New York, and other Free Banking States; but in June, 1851, the new Constitution of Ohio was submitted to the people, and its adoption effectually crushed any further Bank associations, by the following Article:

"No act of the General Assembly, authorizing Associations, with Banking powers, shall take effect, until it shall be submitted to the people at the general election next succeeding the passage thereof, and be approved by a majority of all the electors voting at such election."

In 1852, the General Assembly passed the celebrated Tax Law, and thus gave the finishing stroke to fifty years of the most vascillating measures on the subject, which can be found on the statute books of any State in the Union. Commencing in 1815, to levy an equitable tax upon Banking institutions, the Legislative appetite grew more voracious with the taste of blood; and after the prey of the United States Bank was wrested from the fancied grasp of the General Assembly in 1824, they increased the Bank tax in 1831, and finally satiated their relentless rapacity in 1852. Now, we suppose, that there are three propositions, which every business man will admit:

First, that Bank Capital is a great desideratum in a newly settled country, whether town or State;

Secondly, that every encouragement should be given by Legislative enactments, for its introduction and protection; and,

Thirdly, that the older States had ascertained by a long experience, to what extent this Capital could be legitimately and safely taxed.

Admitting these premises, will any one contend, that the State of Ohio has acted wisely in her late measures of legislation? Has not the partizan spirit of these measures been adverse to the introduction of foreign capital: and while at one period the State fostered a Banking Capital of more than ten millions of dollars, is she not now striving to extinguish it altogether, by the most oppressive exactions, at a moment when her vital interests require Banking facilities to the extent of at least twenty-five millions? We need but to cast a single glance at the statistical facts, which the Railroad Record so clearly presents to us in its columns, to perceive the real wants of Ohio. Here is a State, possessing a territory and property valued at eight hundred millions of dollars, with the means of feeding double the number of her own population, and the capacity by increased cultivation, with improved means, to furnish ample support for five millions more.

"Without at all infringing," says the Record, "on a proper proportion of woods, meadows, pasture and fallow, Ohio might cultivate 12,000,000 of acres, in arable ground. At our present averages, this would give us 80,000,000 of bushels of wheat and 160,000,000 bushels of corn; full enough for the support of twelve millions of people." And yet such a prosperous and prolific State as this, is to be deprived of all Banking facilities, and be dependent on the funds of agents and factors in other States, for the means of bringing forward her products to a ready and profitable market, and lose the percentage, which such extraneous and needless services require for compensation.

We apprehend, that there are but few of the Solons of Columbus, who rightly estimate, or are willing to compute, the amount of this "compensation," paid in the shape of commissions, by the interests engaged in the pork trade alone. From the city of Cincinnati during the last season, there was exported of the products of the hog, in pork, bacon, lard, and lard-oil, the ascertained value of $8,477,431, exclusive of the value of the bristles, grease and other materials, derived from this traffic. A reference to those most largely interested in the business, discloses the startling fact, that the additional cost of money to them, in consequence of a deficiency of Banking capital in this State, is not less than five per cent. on the amount of these operations. This would show an actual subsidy levied on this branch of business alone, of about $424,000 per annum. But this is only a part of the matter. If we take into account, the value of the manufactured articles, exported from Cincinnati only; the flour, whiskey, beef, tallow, soap, linseed-oil, butter, cheese, iron, white-lead, &c., we have another aggregate of $7,688,553, on which there is another percentage of at least five per cent. more paid, making a further sum of $384,400, which together with the former amount, exhibits a total of $808,400—a large percentage of which is lost to the State, by the improvident legislation in regard to Bank capital. But, large as this sum is, it is but a modicum of the entire amount. The value of the imports of Cincinnati, the last season, were valued at $51,239,644, and the exports at $36,266,108, being more than eighty-seven and a half millions of dollars, and to facilitate these heavy operations, Cincinnati had a Banking capital of only 1,205,526, and, within the whole State, less than $6,500,000. Well may the community exclaim, "we are short of a circulating medium."

Contrast the policy of Massachusetts and Ohio. The former imposes a tax of one per cent. on her Banking capital, and the amount invested in it steadily advances with the increasing prosperity of the State. But Ohio pursues an opposite course, and levies an exorbitant and unconstitutional tax, and cripples the trade of her own citizens, but enables the residents of other States to profit by her mischievous measures. Ohio takes a retrograde step, in the financial movements of the present day, and allows the States of Kentucky, Indiana, Illinois, Virginia, and Tennessee, and finally the New England States, to supply her with currency, who derive a large income therefrom.

How an enterprising, energetic and intelligent community, like the agriculturists, traders, and Bankers of Ohio, can submit to such iniquitous laws, as those imposed by the crude, misguided and willful Legislators, who have of late years composed the majority at Columbus, and represent the collective wisdom of the people, surpasses our comprehension. The people of the State have recently adopted a Constitution, which

expressly stipulates that no one interest shall bear any higher rate of taxation than another; but that the burden shall fall equally on all descriptions of property in the State. If then, a law has been passed, which will allow, even by a forced construction, the levy of a tax on any one interest, double or treble that upon any other property in this State, is not the Constitution plainly violated, and the fell purpose of the malicious originators of such a law disclosed, when they find it necessary to resort to "Crowbars" to enforce it? Even in the warfare against the United States Bank, previously narrated, when the State assumed that her rights had been invaded, and levied a tax of $100,000 on the two branches of Cincinnati and Chillicothe, she directed her officer to use no violence in the collection of the tax: "but if he was opposed by force, to go before a magistrate, and depose to the fact." But under the present tax law, the officer is empowered to use "Crowbars," to break open any lock, vault or chest, and to seize upon any amount which he can find, for the full satisfaction of his demand; and this outrage is authorized to be perpetrated upon the property of her own citizens, transacting business under her own laws, and in direct opposition to the Constitution of the United States, as well as that of the State of Ohio. Fortunately, however, for the people, there is now, as there was in 1824, a restraining power, in the Supreme Court of the United States, which can overrule the decisions of partizan Judges, and sustain the rights of the oppressed.

The difficulties attending the present system of Banking in Ohio arise from various causes, but chiefly from the great want of Bank capital. For so large, populous, and productive a State, the amount is utterly insignificant, and considering the large sums necessary to convert the annual crops into money, we may well be surprised, not that it is done with difficulty, but that it can be done at all. But what improvident legislation has discouraged, individual sagacity and cupidity have partially supplied. Hence the large business of the commercial metropolis of Ohio is transacted by means of the facilities, which private Bankers afford, whose rates of accommodation vary from ten to twenty per cent. per annum, while the incorporated Banks are limited to six per cent. As a class, the private Banking establishments are conducted by men of high integrity

and character; but when a lucrative business can be legally transacted by individuals, which cannot be done in a corporate capacity, it is not a matter of surprise, that the capital should flow into its most productive channel, and partially escape the restrictions of fickle and arbitrary legislation.

In the next place, there is no uniform system of Banking in the State. There are in Ohio, at the present period, four distinct classes of Banks, viz: the old banks, incorporated prior to 1845, having a capital of about $1,550,000; the branches of the State Bank, created in 1845, and having a capital of $4,100,000; the Independent Banks, under the same Act, having a capital of $720,000; and the Free Banks, authorized by the Act of 1851, and having a capital of about $695,000; all under different rules and regulations, and having no concert of action with each other, nor unity of interests. They are all amenable, it is true, to the authorities at Columbus, so far as to be required to furnish a quarterly report of their condition, and are subject to an annual examination; but of what value are these? One of the first named class, with a capital of $200,000, and a circulation, according to the August report of $377,682, against which it held $71,000 in specie, and $350,000 in the hands of its principal proprietor, in New York (now bankrupt) has recently failed. "This Bank, (the Bank of Massillon) was chartered in 1835, with twenty years to run, simultaneously with the Wooster, Clinton and Circleville Banks. It belonged neither to the State Banks, the Independents, nor the Free Banks, but was a sort of Freebooter, with license to sink or swim, as it found most advantageous." The Cleveland and Pittsburgh Railroad borrowed $200,000 of its notes of circulation, and the Chicago and Mississippi Railroad, $200,000 more, and these sums were probably scattered broad cast among the Western farmers and traders, who had a large proportion of it in their possession. How far the principal proprietor in New York may be able to refund the $350,000 in his possession, will determine the ultimate value of these notes of circulation. During the last summer, another class of these Banks has disturbed the financial state of affairs, by the stolen and counterfeited notes of five of their number, and consequently the bills of thirteen Free Banks, amounting to a million of dollars, were rejected by a suspecting community and were consequently withdrawn from

circulation, thereby encouraging the Banks of Tennessee, to make an effort to supply the vacuum. These Tennessee bills had for a long time been at a discount of one per cent., but an arrangement was temporarily made, to raise them to a par value, and when a sufficient amount was intermixed with our currency, the arrangement ceased, and the community were compelled to sustain the loss.

Every one cognizant of the currency of Cincinnati, is familiar with the fact, that a large proportion of it consists of the Bank notes of Kentucky, Indiana, Illinois and Virginia, and that in the winter season, large amounts of Eastern bills enter into the circulation. Other States supply our currency, and reap the profit. They contract and expand the circulation, to suit their own interests, not ours. This is the natural result of Ohio legislation in relation to Banks.

We are certainly under great obligation to the Banks of other States, for their supply of currency, on excellent paper, and fine engravings; but we should be better satisfied to see Ohio itself derive the benefit of this extended circulation, by the introduction of its increasing wealth, into this legitimate and valuable business, and encouraged by the fostering care of legislative protection. But while the present councils prevail, it is hopeless to expect that capitalists will place their funds under the arbitrary control of an Ohio Legislature, when the neighboring State of Indiana by a more liberal policy, will furnish them with every facility to conduct their financial operations.

A law was passed, in Ohio, in 1848, prohibiting "the circulation of any notes, or bills, except the notes or bills of the Banks of the State, issued according to Law," under a penalty of one-half of the amount for the use of the State. We know of but one prosecution, under this Act, and that was against a broker, who was foisting upon the community, some worthless "shin-plasters." The trading community and the Banks treat the law with contempt, and manage their financial affairs in conformity with their own notions of expediency, instead of complying with the absurd requisitions of the Legislature of 1848.

By the quarterly returns of November last, the whole amount of the circulation of the Banks in Ohio, was $11,000,000, of which the five Banks in Cincinnati had only $353,000, and one-third of even this paltry amount is now withdrawn, by the closing of the Lafayette Bank. The other cities and towns in the State—Cleveland, Columbus, Sandusky, Dayton, &c.—require a large proportion of their issues, for their own use, and there is left for the commercial metropolis, a totally inadequate supply of currency to meet the engagements of a single day's active business. Why then should the trading community submit to these useless restrictions in relation to the currency, which this law of 1848 imposes? Necessity, however, fortunately compels them to treat it with perfect derision.

There is another defect in the Ohio system of Banking, which is not, however, the result of her legislation, and this is the practice of keeping Bank Accounts in "currency," as it is termed, instead of par funds. The Law, establishing "the State Bank of Ohio, and other Banking Companies," requires, that all notes, issued by them, shall be payable at the branch, by which they are issued, in gold and silver coin, or either, at the option of the branch, on demand. Each branch is proportionably liable, for the redemption of these bills, and the Board of Control have the supervision of the distribution of their several quotas of circulation. Theoretically, then, these notes are par funds, but practically they are not so, since the bills of the nearest branches will not command the specie in Cincinnati, at par value.

In New England, the Bank notes of six States, whose aggregate of circulation exceeds forty millions of dollars, are convertible into specie, at the Suffolk Bank in Boston, at par. This system was established there in 1824, and has consequently been in operation there nearly thirty years, and the practical results are, that the currency of the New England States commands the specie even in the City of New York, at the trifling discount of one-quarter per cent.

Why should not a similar system be adopted in Ohio, and the bills of all her own Banks be redeemed at the central point of business—Cincinnati—at par? With such a system, once introduced, a nucleus would be formed for more extended operations, similar arrangements might be made in the adjacent States, and the currency of Indiana, Illinois, Kentucky and Virginia would be convertible into gold, on as favorable terms as

the New England notes are now received in New York. Leaving, however, the Ohio system of Banking for the present, let us now examine that of the adjoining State of Indiana.

This State was admitted into the Union in 1816, but notwithstanding its system of internal improvements, which was commenced in 1832, with the construction of the Wabash and Erie Canal, 375 miles in length in Indiana, there were few incorporated Banks, until 1834, when the "State Bank of Indiana" was established, with a capital of $1,600,000, divided among ten branches.

This charter allotted to each branch $160,000, and provided, that all should be mutually liable for the debts of each other, but should divide their own profits. Each share was subject to a tax of 12½ cents per share, payable out of the dividends, for educational purposes, in lieu of all other taxes: but in case of an advalorem system of taxation in the State, then the stock was liable, the same as other capital, not exceeding, however, one per cent. altogether. No note under $5 was allowed to be issued, and the Legislature reserved the right to restrict it to $10 within ten years. The capital of any branch might be increased by and with the assent and concurrence of the Legislature and the Directors of the State Bank. The Directors of the parent Bank were to have charge of the plates, and Bank paper of the branches, and were empowered to deliver to them, an amount of such paper, not exceeding twice the amount of the stock subscribed for. One half of the capital was subscribed for and owned by the State, for which they authorized bonds to be issued to the amount of $1,300,000 at five per cent., to realize the funds to pay for their half of the stock; the remaining half, was to be subscribed for, and owned by individuals, and corporations. The debts of each branch were limited to double the amount of capital paid in, exclusive of deposits.

In January, 1836, an amendment was passed by the Legislature, and the discounts were allowed to be extended to twice and a half the amount of the capital paid in; and the branches were allowed to increase their capitals, to $250,000 each, but none of them have availed themselves of this privilege, and there are now but three, which have over $200,000.

In February, 1841, the branches were authorized to issue

notes of a less denomination than $5, not exceeding in the aggregate one million of dollars, on the payment of one per cent. for the privilege; and of its circulation of $3,680,000, about one-sixth part is in small notes, liberally scattered throughout the State of Ohio.

After the resumption of specie payments by the Banks in May, 1838, out of the 959 Banks, then in existence, 343 again wholly suspended in October, 1839, and 62 partially so, of which latter number were those of the State Bank of Indiana, and which did not again resume the payment of specie, until October, 1841, when the branches held $1,127,518 to meet a circulation of $2,960,414 and deposits amounting to $317,890 only. Since that period, the Bank has maintained its credit inviolate, and under able management, has successfully effected a regular reduction of its suspended debt, which had rapidly accumulated during the inflation of business in former years, without ruinous sacrifices to the debtors of the Bank. In looking over its regular returns for the last ten years, its present high credit, and the names of the efficient officers, who have charge of its branches, it is a matter of deep regret, that so popular and valuable an institution is so soon to be closed by the expiration of its charter, and that the new Constitution precludes its renewal on its present basis.

But although the experiment has resulted so favorably in Indiana, it was nevertheless a hazardous one to undertake; and had it not been for the general suspension of the Banks in 1837, and the continuance of the paper system, south and west of Philadelphia, until 1842, the result might have been widely different. In May, 1837, the capital of the Bank was but $1,846,921, but its loans and discounts amounted to $4,208,956. Its specie was but $1,196,187 to meet $2,516,790 of circulation, and $1,898,061 of deposits. If, therefore, it had then been pressed for the payment of its notes, the Bank would have been compelled to suspend payment, or gone into liquidation. Of course it would have made many bankrupt, and reduced others from affluence to poverty. As it was, the efforts to avert the general calamity only protracted the struggle, and the catastrophe was the more fatal to individuals. If specie-payments had been persisted in by all the Banks, prices would have fallen at once to their specie value, instead of struggling on

from bad to worse for three years in the vain hope of relief, and finally sinking under the accumulated pressure. Then, the crisis would have been over at once, and trade having reached its lowest point, would speedily have been reörganized on a new basis. With the elastic spirit of our countrymen, new fortunes would have been amassed, upon the ruins of those which had fallen, and the vain efforts to sustain a tottering fabric would have been more wisely directed to a new structure, upon a more enduring foundation. If we recur to the origin of this Bank, we see at once, that it was founded upon false principles, and that one-half of its capital was fictitious, for such we must term the State Bonds for $1,300,000, to provide for its $800,000 of stock, and upon which the Bank was authorized to issue $1,600,000 of its notes.

Besides, the Act itself was unconstitutional. In the first Article of the Constitution of the United States, there is an explicit prohibition of the authority of any single State to "emit bills of credit," and the great expounder of that instrument, in his speech on the renewal of the charter of the United States Bank, in the Senate, on the 25th May, 1832, made use of these words: "Congress can alone coin money; Congress can alone fix the value of foreign coins. No State can coin money; no State (nor even Congress itself) can make anything a tender, but Gold and Silver. *No State can emit bills of credit.* But, notwithstanding this apparent purpose in the Constitution, the truth is, that the currency of the country is now, to a very great extent, practically and effectually under the control of the several State governments: if it be not more correct to say, that it is under the control of the Banking institutions created by the States; for the States seem first to have taken possession of the power, and then to have delegated it." And again, on the 28th May, in the same place, he said; "It is further to be observed, that the States cannot issue bills of credit; not that they cannot make them a legal tender, but that they cannot issue them at all. Is not this a clear indication of the intent of the Constitution, to restrain the States, as well from establishing a paper circulation, as from interfering with the metalic circulation? Banks have been granted by States, with no capital whatever, their notes being put into circulation, simply on the credit of the State, or the State Law. What are the issues of such Banks,

but bills of credit, issued by the State. I confess, Mr. President, the more I reflect on this subject, the more clearly does my mind approach the conclusion, that the creation of State Banks, for the purpose, and with the power of circulating paper, is not consistent with the grants, and prohibitions of the Constitution." Such were the opinions of Daniel Webster in 1832, and they may be urged with equal force now. In direct opposition to these views, Indiana issued her Bonds for $1,300,000, to provide for her quota of Stock in the Bank subscribed for by her, $800,000, and has for nearly twenty years, been participating in the profits of the institution, although she has never contributed in cash one dollar of the capital. While the five per cent. bonds of the State, amounting to upwards of twelve millions of dollars, were nearly worthless, the interest thereon unpaid, and in 1842, sold at upwards of eighty per cent. discount, and in 1843, at seventy-two per cent.; yet the Bank has paid the specified interest of five per cent. on the $1,300,000, and in winding up its affairs, will receive an ample bonus for its services, by the full payment of principle and interest on the bonds which she holds, whatever the amount may be.

On the 1st November, 1851, the new Constitution of Indiana went into operation, and on the 28th May succeeding, a General Banking Law was passed, in conformity thereto. This Constitution prohibits the incorporation of any monied institution, for the purpose of issuing bills of credit, or bills payable to order, or bearer, except under a general Banking law, and details the privileges and restrictions which are to be embodied in the law. Accordingly, "the Act to authorize and regulate the business of Banking" provides, that whenever any person, or association, shall deposit in the hands of the Auditor, in trust, any of the Stocks of the United States, or of any of the individual States which pay interest semi-annually, and an amount which produces six per cent. per annum, or Indiana 5 per cent. Stock, or double the amount of the $2\frac{1}{2}$ per cent. Stock, (the Indiana State Stocks chargeable upon the Canal, being excluded,) such person, or association, may receive from the Auditor an equal amount in Bank notes, to be used for Banking purposes, of the usual denominations, of which one-fourth part may be under five dollars. The parties then possess the usual Free Banking powers, limited to twenty years

duration of existence, required to pay specie for their bills, on presentation, liable in their individual capacity for an equal amount of their stock, in payment of all debts incurred, the capital to be at least $50,000, which may however be enlarged indefinitely, but "no Bank shall at any time, for the space of twenty days, have on hand, at their place of business, less than twelve and a half per cent. in specie, of the bills or notes in circulation, as money." No Directors are required for the management of these Banks, nor are the stockholders required to be citizens of the State.

It will be perceived, that the General Banking law may be regarded as an excellent financial measure on the part of the State, to enhance the value of her 5 per cent. stocks, since the Legislature have made them, for Banking purposes, nearly equivalent to the stocks of the United States, or those of the individual States, which pay interest semi-annually; although the market value of the latter is from ten to fifteen per cent. higher than those of Indiana; and consequently Indiana bonds will be the only securities deposited with the Auditor, as the basis of the Banking Capital, until the entire amount is exhausted for this purpose. And this period will not be a remote one, unless an immediate change is made in the Banking Laws of Ohio.

There are some serious objections to this Law, as it relates to the security of the community, and particularly in relation to their accommodation with Bank facilities, which may be briefly pointed out. In the first place, "a Board of Directors is not a necessary appendage to a Bank, nor are Stockholders required to be citizens of the State." Hence it follows, that a single individual in Ohio, or New York, may deposit with the Auditor of the State of Indiana, $50,000 of the 5 per cent bonds, and receive nearly an equal amount of Bank bills, to be used for Banking purposes, provided that he opens an office within the limits of the State for the receipt of deposits, appoints a Cashier, and other officers, if he thinks proper; he himself acting as President and manager, and disposing of the funds, as he alone may determine. He may enlarge his circulation to $500,000 or more, if he can, on the deposit of the requisite securities, and then distribute the amount among those, who will pay him the highest price for these Bank facilities. The

Bonds of Railroads, in the process of construction, are the primary investments usually sought for, and these through the active agency of contractors, open a wide field for the speedy distribution of small Bank notes. With sagacious management, other avenues of circulation are easily found, and the whole area of agricultural labor is strewed with this ~~spurious~~ currency, no one doubting its sterling character, until a crisis arrives. Then perhaps, the rainbow of promise proves as delusive as the morning arch, which only portends a day of darkness and storm. It will be perceived that although the Banker has issued his half million of dollars in Bank notes, yet his original capital stock is not necessarily enlarged beyond the original sum of $50,000, and therefore the provision of the Law, rendering "any shareholder liable in his individual capacity, for any debt of the Bank to an amount over and above his stock, equal to the amount of his shares of such stock," is wholly nugatory, beyond the minimum amount of $50,000 required for the commencement of Banking operations.

Specious

In prosperous times, when money is abundant, and stocks high, no doubt such institutions will glide along smoothly, and their bills pass currently, and without ~~security~~; but in periods of difficulty and alarm, when the specie Banks are compelled to entrench themselves for protection, the bills of these free Banks would be driven home with such rapidity, that it would be found impracticable to sustain such an amount of circulation. If the Banker was even inclined to redeem his notes, he would find it an Herculean task, since the bills, not having been issued to supply the ordinary wants of trade, but rather forced upon the market, for the mere purpose of circulation, would be found in a few neighborhoods only, and on the least alarm, they would be returned faster than provisions could be made for their redemption. The Massillon Bank of Ohio furnishes a pointed illustration of the practical working of a one man power in a Banking institution, although in this case, unfortunately, there are no deposits of State Stocks to secure the payment of the $380,000, which the public have received through the hands of Railroad contractors, and which is now sold at less than half its nominal value. But is it not obvious, that a Banker who issues ten times the amount of his capital, in circulation, does so for speculative purposes only? The tempta-

Scrutiny

tion is great, for in periods of prosperity, he can make $30,000 or $40,000 per annum, by his circulation, and if his Bank fails, in a period of scarcity, he is only liable for $50,000 or the amount of his stock; and even this he might avoid by a timely conveyance to irresponsible parties, and thus escape personal liability altogether. But how long would it require to dispose of the $500,000 of Indiana 5 per cent. bonds in the New York market at par, in a period of panic; or even in a severe monetary crisis; and meanwhile, what would be the discount on the bills of his Bank, when driven into liquidation?

Past experience has taught us, that the community would suffer a loss of at least twenty-five per cent. of their amount, and we maintain that that is not legitimate Banking, which exposes a community to such a contingent hazard; and although an extreme case has been stated, yet it is one which may occur, and it would not be difficult to point to one, where the circulation now exceeds three times the amount of the capital, under this system of Free Banking.

In regard to the accommodation of the trading community in Indiana, a few remarks will suffice. Of all the new Banks, established under this Law, few of them, if any, are Banks of Discount, at their respective places of business, but all of them are Banks of Circulation, beyond the limits of the State, whence they derive their existence, and this is the grand object of the proprietors of the stock. The Law indeed says, that nothing contained therein "shall be construed, to empower any person, or association, to conduct or carry on the business of Banking, at any other than the place of business of such individual Banker or Banking association, which place of business shall in every instance, be the same at which their small Bank bills respectively are made payable." Probably the business of issuing and redeeming the circulation may be deemed a strict compliance with the Law; but the business of distributing these notes in the shape of loans and discounts, is managed quite beyond the limits of the State, and the constituents of the law makers derive little or no benefit from their General Banking Law, as they will probably find, when their present State Bank has closed its operations, in 1855. Why so excellent and well managed an institution should be doomed to extinction, and the Free Bankers of other States encouraged to occupy her proud position, is an enigma to those, who entertain the antiquated idea, that the primary object of all State governments, is "to promote the common welfare," and to secure the equal protection and benefit of their own citizens. But the "progressive" spirit of the age now denounces such conservatism, and all our legislation is now wasted upon a succession of ever varying experiments.

We pass now to the state of Illinois, where Bank legislation has been more remarkable, than in any other State in the Union, and where the modern system of Free Banking has been finally adopted as the last experiment. The first Bank established in the Territory of Illinois was at Shawneetown, in 1813, the whole territory then containing but 1500 inhabitants: this Bank was regularly incorporated in 1816, as the Bank of Illinois, with a capital of $300,000 for the term of twenty years, and one third of this amount was reserved for the subscription of the State, when it should be admitted into the Union. It commenced business in 1817, and, aided by the government deposits, it acquired an extensive credit, paying specie for its bills until August, 1821, after the Kentucky Banks had suspended specie payments: but was at length compelled to stop, and remained dormant, until February, 1835, when by an Act of the Legislature, its charter was extended twenty years from 1st January, 1837. On the 4th March following, its capital stock was increased to $1,400,000, to be subscribed for by the State, and State Bonds to provide for the funds were issued, and the faith of the State pledged for their payment, with interest, in 1860.

The Constitution adopted in 1818, declared that no new Bank, or monied institution should be permitted in Illinois, except a State Bank, and its branches, and those then existing. On the 22d March, 1819, a Bank was incorporated, by the name of the State Bank of Illinois, for the term of twenty-five years, with a capital of $4,000,000, one half to be subscribed by individuals, and the other half by the State, whenever the Legislature should deem it proper. This charter was repealed in 1821, as no effort was made to carry it into practical operation; and another Bank was chartered in lieu of it, for ten years, with a capital of $500,000, to be owned by the State, and managed and superintended by the Legislature. This Act was an anomaly in Legislation, and assumed the wild theory, that

paper money was a panacea for financial distress. The capital consisted of its Bank plates only, and $300,000 were directed to be issued, and loaned on notes for one year, with mortgages as securities, in sums not exceeding $1,000 to each individual. The notes issued by the Bank bore interest at two per cent. per annum, and the borrowers paid six per cent. on their discounted notes, and these notes were to be renewed, on the payment of ten per cent. of the principal annually, until the expiration of the Bank charter, when the balance was to be paid. These Bank notes were receivable in the payment of taxes, and for all debts due to the State, counties, or the Bank. It had hardly commenced operations, before its bills fell to 75 per cent., shortly after, to 50 per cent, and at length to 25 cents on the dollar, when they ceased to circulate at all. "At one of the branches, of which there were four, two dollars in specie were received, which were preserved, as curiosities," and in the other three, none of any consequence, was received. The country was thus flooded with irredeemable currency, a destruction of public and private credit ensued; disgraceful legislation, degradation of morals, and a succession of calamities followed. The authors of the mischief escaped unharmed, but the innocent, and unsuspecting were plundered without mercy. The members of the Legislature received their pay in the depreciated currency at the market value, and on one occasion received $9 per day for their services, which the State was compelled to redeem at par, and a loan of $100,000, which was received in Bank notes at par, was paid out by the State at 50 cents on the dollar.

In February, 1835, a new State Bank was incorporated, with a capital of $1,500,000, with the liberty to increase it to $2,500,000, the State to become a partner and to hold $100,000 of the stock. In March, 1837, an addition of $2,000,000 was made to its stock, to be subscribed for by the State. Its charter was to continue until February, 1860, and a tax was levied of half per cent. per annum: it had fifty days allowed for the redemption of its bills, and as a consideration therefor, the Bank was required to redeem the Loan of $100,000 above referred to. To provide for the funds for this Bank capital, Commissioners were authorized to issue $2,000,000 in State Bonds. The career of this Bank was brief. Its loans were soon ascertained to have been made to irresponsible, and insolvent parties, and the Bank was shortly compelled to suspend payment, and finally on the 24th January, 1843, it went into liquidation, as will be seen. In 1841, an Act was passed to preserve the charter of the Bank of Illinois, at Shawneetown, which had been forfeited, provided it would pay $200.000 of the State debt; but in 1843, two other Acts were passed, one "to diminish the State debt, and put the State Bank into liquidation," and the other "to reduce the public debt $1,000,000, and to put the Bank of Illinois at Shawneetown into liquidation." Accordingly, without a judicial investigation of the affairs of the Bank, Commissioners were appointed to take possession of the Banking House, and its contents, and everything belonging to it, and in case the Directors, stockholders or officers interfered to protect their property, they were declared by this law, *felons*, and liable to imprisonment in the penitentiary for a term not exceeding ten years. It was a fortunate thing for the honor and credit of the State, that this law was suspended in its operation, and another Act substituted, which went into quiet effect. This case has been recently followed by the Acts of the State of Ohio, and both are violations of the fourth Article of the Constitution of the United States, which secures to all citizens the inviolability of persons, houses, papers and effects against unreasonable searches and seizures, or the deprivation of property, but by the judgment of one's own peers, or the law of the land. Of the $500,000 of circulation and certificates of deposit held by the community against the Bank, when their assignment was made in 1845, about $410,000 have been redeemed, and destroyed, leaving about $90,000 unpaid, and all the stock paid in by individuals is a dead loss to them; while the State laid violent hands on its own bonds for their share of stock, and annulled their liability. It must be borne in mind, that when the State became a partner in these two State Banks, she issued bonds for her share of the stocks for $3,100,000, instead of paying cash therefor, and these bonds were offered for sale in New York and London and "were the sport of Brokers, Bankers, and bankrupts." Subsequently the Legislature cancelled and burnt $3,050,000 of these bonds in the Capitol Square at Springfield, and a corresponding amount of stock was surrendered therefor, thus cheating the community of their

just claims, as innocent bill holders, and eluding their liability to the other stockholders, who had paid in cash their share of the stock. If these bonds had been the notes of stockholders, given for stock, and held as such by the Bank, until it became insolvent, and the Bank had surrendered these notes for the same amount of stock, would not the bill holders have cried out against such a flagrant injustice, and avenged it? But the act was a legislative one, and men do that in an official capacity, which would disgrace them as individuals. Public opinion, however, has long since stamped these proceedings, with the opprobrium they so richly merited.

After the general crash in1837, the State was without Banking associations, until 1851, when a General Banking Law was passed, which authorized any person or persons, on depositing with the Auditor of State, any of the stocks of the United States, or of any other individual States, on which the full interest of six per cent. was annually paid, to receive an equal amount of Bank notes, to be used for Banking purposes, and on the stocks of Illinois, eighty per cent. of the market value of said stocks in New York, in like manner, in Bank notes, and such person or persons were duly authorized to loan and circulate as money, the Bank notes thus issued by the Auditor.

Restrictions were imposed, requiring that the aggregate amount of the capital stock should not be less than $50,000, and that the applicants should name the style of the Bank, the place where it was to be located, the amount of the capital, the number of shares, the names and places of residence of the stockholders, and the period when the association should commence and terminate their business, and upon filing a certificate of these facts, the party became a body politic and corporate, by the name assumed, for the term fixed in the certificate.

The amount of Bank notes is limited to the amount of bonds deposited with the Auditor, but the denominations are optional, so that the whole amount of circulation may be claimed in one dollar notes, if the parties think proper; but the bills must be made payable in Specie, at the place of business, on demand, and on failure thereof for ten days, the Bank is liable to 12½ per cent. damages per annum, in lieu of interest, and forfeits its corporate powers and privileges. The stockholders are individually liable to the amount of their stock, for all the indebtedness and liabilities of the Bank, and full provision is made for the collection of the same, should occasion require. The Act, it will be seen, confers a corporate Banking privilege for an *unlimited* amount of capital, and for any length of time, which the applicants may designate, even if it be *perpetual.*

It will thus be seen, that the three great States of Ohio, Indiana and Illinois, have all adopted the "Free Banking system," in their Constitutions, and that this is to be the future policy of these States. All future Banks are to become the creditors of the States, by purchasing their bonds, and by depositing these bonds with the Government, they return to the parties Bank note paper, which they authorise them to issue as money. Neither individuals nor Banks can lend that which they have not—and if they lend credit, in the shape of Bank notes, without the means to redeem them in Gold and Silver, they commit a fraud on the community, as they lend, and put into circulation, that which is not money, nor the representative of money. This system of converting State Stocks into Banking capital will surely prove a delusion, whenever a great revulsion occurs, for it is a departure from the true principles of safe and sound Banking, which are based on money, in Gold and Silver deposited, and kept partly in possession, for immediate exigencies.

But there is another hazard in the Free Banking system of these States, which deserves some consideration, and which arises from the extreme latitude, which is granted in regard to the management of these Banks. If in the commercial metropolis of the Union, large institutions have been in peril, from the indiscretion of Bank Directors, what may be reasonably expected from the inexperienced Managers of these small Banks, which are now supplying our Western States with currency? The Free Banking system invites the inexperienced, as well as others, to enter upon a business, which requires skill, experience and talents to manage it advantageously, but which many, who are now embarking in it do not seem to possess. With a comparatively small sum to commence with, the operations of these currency makers, may be widely extended; but when difficult financiering becomes necessary, originating with

imprudent discounting, or deferred payments, then there will be a great hazard of a catastrophe, in which even the bill holders may be the sufferers.

About twenty-five years since, the foreign trade of our country passed through a remarkable change in its operations, by the substitution of letters of credit on European Houses, for merchandise and coin for their outward cargoes. Instead of gathering together all the available means, which a merchant possessed, or could command, on the strength of his own credit, and periling the whole in a single cargo, or in numerous adventures to widely distant countries, he had merely to satisfy the Agent of some foreign Banker, that he possessed the means to meet any contingent loss, which might attend the adventure, and his capital in the shape of a letter of credit was furnished to him, and the most hazardous enterprises were undertaken, merely on the strength of the previous success of others. Individuals, who during an industrious life time, had limited their operations to shipments of fish and lumber to the West Indies for sugar and molasses, suddenly became interested in numerous adventures to Calcutta for indigo, to Canton for silks and teas, to Cuba for sugar for the St. Petersburgh market, to Rio Janeiro for coffee for Hamburgh or Trieste, and without any experience of the trade, and sometimes without even a knowledge of the proper seasons to purchase; of course the most disastrous losses occurred, year after year, until the final crash of the three great Banking Houses in London disclosed the fearful amount, which inexperience had engulphed, by the use of these tempting allurements to foreign adventures.

In the providence of God, men are adapted to, and fitted for their various pursuits, by constitution, temperament, and education. As vain is it to expect "grapes of thorns, or figs of thistles," as successful results from an inexpert workman, whether professionally, artistically, or in the ordinary operative departments of life. How then can a trader become a merchant, a mechanic a Banker, or a Banker a mechanic, without previous preparation and instruction. Take men, educated for one profession, or pursuit, and divert their attention to another of a dissimilar character, and it is hopeless to expect from them success or eminence in their new vocation.

Although Kentucky is the oldest of the four States, (having

been admitted into the Union in 1791,) we have reserved her to the last, because her system of Banking is of a more fixed character, and unlike those of the three other States, which we have been reviewing.

The first Banking institution in Kentucky was chartered in 1807, under the name of the Bank of Kentucky, with a capital of one million of dollars. Previously however to this, the Legislature, in 1801–2, chartered an Insurance Company in Lexington, whose notes, payable to bearer, were transferable by delivery, and this feature made the institution a Bank of circulation, and such it became; but the clause which granted this Banking power, was not thoroughly understood by the members who voted for it. The political party which then controlled Kentucky, held Banks in horror, and never would have passed the Bill, had they understood its provisions. In 1804, it was proposed to repeal its Banking powers, but it was negatived by the Governor; meanwhile, it had divided eight per cent. semi-annual dividends, and was consequently denounced as a "monied aristocracy." Its chartered rights extended to January, 1818, but they were mutilated, and finally superseded by the incorporation of the Bank of Kentucky in 1807, as before stated. This Bank also having made liberal dividends, incurred a similar anathema, and in 1817, forty Independent Banks, with capitals amounting to ten millions of dollars, were chartered, which were by law permitted to redeem their notes with the paper of the Bank of Kentucky instead of Specie. This Bank had again resumed Specie payments, after the peace of 1815, and was in good credit. In the summer of 1818, the State was inundated with the paper of these Banks; their Directors were generally men destitute of experience or knowledge of financial affairs, and in some instances, "devoid of common honesty." Large loans were made, and rashly expended; speculation was rife, and most of the bubbles, which were set afloat, collapsed within one brief year. The pressure of debt became universal, and to relieve "the public outcry for relief," the Legislature of 1820–21, chartered the "Bank of the Commonwealth," the People's Bank, with a capital of three millions of dollars, to be printed on slips of paper, purporting to pledge the public faith for its redemption; in other words, its paper was made payable, and receivable for the public debts

and taxes; and certain lands, owned by the State, south of Tennessee river, were pledged for the redemption of these notes. If any creditor declined to receive it in payment of his debt, the debtor was authorized to "replevy the debt for the space of two years." But this was not all; by the terms of the charter of the Bank of Kentucky, the Legislature had reserved the right to elect such a number of Directors, as would secure to them the control of the Board. Accordingly, an experienced conservative President and Board of Directors were superseded by pledged parties, who had promised to receive the notes of the Bank of the Commonwealth, in payment of debts due to the Bank of Kentucky, and thus the latter, whose notes were redeemed in Specie, and whose stock was at par, was struck down by a blow, which depreciated its value fifty per cent. and entailed upon it a permanent suspension of specie payments.

The paper of the new Bank rapidly sunk to one-half of its nominal value, and creditors had the choice of two evils—either the payment of one-half of their debts, or nothing whatever for two years, and then to do the best in their power, with the hazard of new delays, and the possible bankruptcy of their securities.

The conflict of the two parties, known as the "relief" and "anti-relief," or the "old court" and "new court," was the fiercest which ever agitated the State; but after a continued struggle, which was characterized by great bitterness of feeling on both sides, the conservative party triumphed in 1826–27, after a contest of five years duration; the "old court" was restored, the replevin Act repealed, and the paper of the Commonwealth Bank suppressed, instead of being re-issued, and finally destroyed by successive Acts of the Legislature; its place being supplied by the notes of the branches of the Bank of the United States, at Lexington and Louisville.

After the fate of the United States Bank was sealed, the dominant party in Kentucky, in 1833, determined to establish State Banks, to supply its place, and in the sessions of 1833 and '34, three Banks were chartered, viz: The Bank of Kentucky, with a capital of five millions, the Northern Bank of Kentucky, with three millions, and the Bank of Louisville, with five millions of dollars; all of which are now in existence, but whose aggregate capitals are but little more than seven millions,

instead of thirteen, as originally established, and of which the State owns $1,500,000. In May, 1837, all these Banks suspended specie payments, and the Legislature legalized their doings, and refused to exact the forfeiture of their charters, to which they were liable.

In 1838, the monetary derangement appeared to have passed away, and a fair and prosperous state of things ensued, for a brief season; during which period, the Legislature granted the charter of the Southern Bank of Kentucky; but shortly afterward, new difficulties arose, a second suspension followed, the repudiation of their bonds by several of the other States, the universal derangement of the currency South and West of New York, the general prostration of trade and commerce, and the consequent destruction of individual credit. These all combined, rendered it impossible to obtain the stock of this Bank at that period, and put it into operation. The people of Kentucky, however, succeeded in staggering on, under their load of pecuniary embarrassments, until 1842, when driven almost to desperation by their frightful accumulation of debt, under which they had been laboring, they once more appealed to the Legislature to provide some means for their relief. A calm dispassionate course of action, an extension of the time when judgments could be given, and liberal accommodations granted by the Banks, served to tranquilize the public feeling, and with the year 1843, the financial pressure gradually diminished, and shortly afterward ceased altogether.

In 1838, when the Banks resumed specie payments, the circulation was about four millions, which was increased to $5,418,320, on the 1st January, 1839. But after the suspension in the following October, it was gradually reduced to less than three millions, and at the close of 1842, it was only $2,801,219, when the Kentucky Banks again resumed specie payments, and on the 1st January, 1850, the three Banks and thirteen branches had $6,683,524 in circulation, with a capital of $7,030,000. The Southern Bank of Kentucky had its charter amended, and went into operation in 1852, with a capital of $1,300,000, Subsequently, charters have been granted to the Farmers' Bank with a capital of $2,300,000, the Commercial Bank with $400,000, the Kentucky Trust Company with an unlimited capital, and the Newport Safety Fund Bank with

$300,000, of which only $33,000 is yet paid in as capital, and $50,000 as safety fund. "The Kentucky Trust Company" was originally chartered as a Savings Bank in Covington, with a capital limited to $50,000, but in a subsequent session of the Legislature its name was changed, new privileges granted, and the Directors were empowered to fix the limit of their capital by their own vote, arbitrarily. Accordingly, this may be increased to ten or fifty millions, if the Directors think proper, and the charter being perpetual, as well as unlimited, this institution enjoys larger privileges, than any other Banking company in the United States. Indeed, we know of but three others which have perpetual charters—the Manhattan Company, the Dry Dock Bank, and the Chemical Bank of New York, with capitals of $2,050,000, $200,000, and $300,000, only. But conditions are imposed upon each of these charters: one being the supply of water to the City; the second, the construction of docks; and the third, the manufacture of chemicals. All of which requsitions are complied with, to a very limited extent only.

The only other *unlimited* charter in the United States, of which we are cognizant, is that of the Atlantic & St. Lawrence Railroad Company, in the State of Maine, which enjoys greater privileges than any other in the country. In this singular instance, the Legislature granted a *perpetual* charter; a right to hold property to an *unlimited amount*, both within and beyond the State (consistently, in respect to the latter, with the "lex loci," of course) to exact tolls of passengers, and freight, according to the discretion of the Company, and without Legislative restraint; to be exempt from connection with any other Railroad whatever, on the entire westerly side of its length, without its own consent thereto; to be free from all other taxation on its real estate, by the several towns and cities, through which the road passed, than that to which individuals' real estate was subjected, and then to be valued only as "real estate of the same quality, in such town, city, or plantation is valued;" to be forever exempted from all other taxation, than a division with the State, of the net income of the road, after it shall exceed ten per cent. per annum, and an exemption of the charter from being "ever revoked, annulled, limited, or restrained, without the consent of the Corporation, except by

due process of law." Fifteen years were also allowed to complete the construction of the road.

The prodigal liberality of this charter, is so far as we know, without a parallel in this country.

We have thus gone through with the tedious details of the Banking history of the four States of Ohio, Indiana, Illinois and Kentucky, to show how wide a departure there has been in their course, from sound Banking principles, and to follow out the consequences, which have resulted from a false system. The error in three of these States has been the same, and it has been attended with disastrous issues, both to the community, and to the Stockholders. Contrast the system, which has stood the test of half a century in New England, with that of the great valley of the Ohio, and if experience can teach any valuable lesson, it is surely to be found here. The commerce of the former has been often jeopardised, despoiled, and almost annihilated, by embargoes, seizures and captures, in peace and in war: its manufacturing interests have encountered every disaster, which physical causes occasion, or political rancor could array; its reluctant soil has yielded only the means of comfortable subsistence to her inhabitants; yet her capital has always been steadily increasing, with each decade of years, and in her darkest hours, she has always had the means of redeeming her Bank issues. During the war of 1812–15, and in the monetary crisis of 1837–8, New England could have sustained the specie payments of her Banks, but out of sympathy to her sister States, she yielded to the popular voice, at both periods, and was the most ready to resume her payments at the appointed dates.

In the Western States however, all the primary Banking institutions were commenced with mistaken views, and upon a delusive basis, and the first financial storm, which passed over the country, after their organization, swept away their nominal resources, and scattered them, like withered leaves in an autumnal gale. With a genial climate, a fertile soil, and the sure reward, which industry combined with enterprize would command, the gradual attainment of wealth was certain; but the mania of land speculation seized the whole western section of the country, the prices of all commodities reached an unprecedented valuation, and States, cities and individuals rushed madly into enterprises of the most extravagant character.

Projects of Canals, Turnpikes, Railroads, and other internal improvements, were undertaken, far beyond the wants of the community, or their ability to pay for them; and this was done, without making any solid provision to defray the cost of construction, or even the interest accruing thereon; and the natural consequences followed—universal bankruptcy; nor could any other result have been reasonably expected.

The Western Banks appear to have adopted the "Continental money" system, instead of the secure and profitable basis, which later times, and more peaceful pursuits had subsequently founded in the older States. In our Revolutionary struggle, nearly 360 millions of paper money were issued, for the redemption of which, no provision was made; but without this succor, that greatest achievement of civil liberty would probably never have been accomplished; and although the country was rescued from colonial dependence, thousands of brave and self-sacrificing patriots, who bore the burthen of severe service and deprivation, were utterly ruined, and with their families, beggared. It would be natural to suppose, that such disastrous results would have engendered a deadly hostility to paper money, in all future time. But scarcely had the actors in the glorious scenes of our Revolution passed away, before the same delusive scheme of finance was resorted to by their descendants; on a smaller scale, it is true, but for widely different objects. The first, effected our national independence; the last, degraded sovereign States, and reduced thousands of individuals to the thraldom of bankruptcy. It may, indeed, be safely asserted, that much of the prejudice and hostility, which is occasionally evinced against our paper money system, is attributable to the abuses which have crept into it, through the artifices of designing men, or the gross mismanagement of the inexperienced. This modern Banking system, with all its glaring defects, however, is the source of a widely extended prosperity. Deprived of its facilities, the merchant would soon find himself circumscribed within very narrow limits, the manufacturer would be compelled to curtail his operations, and the mechanic would be dependent upon the sale of the products of his labor, for future employment,

But the question is asked, how can this paper money system be so fortified, as to render its issues perfectly secure to bill

holders? In our former remarks on this subject, we urged the importance of having only Banks with large capitals, a specie basis, and experienced, prudent Directors, limited by such restraints, as the experience of the past forty years had furnished and proven to be necessary in our Eastern States, and instanced Massachusetts in particular. If a Bank, after having its capital paid in, in Coin, or its equivalent thereto, discounts nothing but strictly business paper, which will mature in sixty days from the day of discount, it can never be in jeopardy. The bills, which it pays out for these discounted notes, represent the value of the merchandise, for which the notes were taken, endorsed by the names of those, who sold the property for the notes, which they have exchanged for the bills of circulation. "While this rule is adhered to, there cannot be an excessive issue of currency, for the relative proportion of currency with commodities will be regulated in the first place by the demand, and secondly by the valuation thereof, by Bank Directors."

It is true, that more may be bought, than the wants of the community may require, for purposes of speculation; and therefore the fact of actual purchases is no proof of an actual existing want, or the necessities of the community. Hence the obvious necessity of having prudent Directors, who will not only form a correct judgment of the credit of the applicants for discounts, but will also estimate the probable results of the speculations, for which the notes were originally given. In all prudent Boards of Directors, the credit of the promissors is as closely scrutinized, as that of the endorsers. But when Banks issue their notes for paper given for real estate, or land operations, they disturb the currency and exchanges, for they then discount paper, which represents property, which will not probably be sold in time to enable the borrowers to pay the notes at maturity. The past history of the Banks furnishes instances, where they have safely passed the crises of 1820, '25 and '28, being then managed on commercial principles, and have subsequently been prostrated, by their change of policy, converting their institutions into Banks of accommodation; and discounting notes, with the promises of renewal, upon the payment of a portion of the loan.

We believe that we have stated the true basis of Banking, and as general principles, no business man, and certainly none

of the community, who have their daily means of subsistence invested in Bank notes, can withhold their assent to their correctness. If such is the case, why is there not more rigor in public opinion, which ought to sway, or even direct our legislative enactments. The great error in our democratic form of government, is, that the sovereign people are too facile, and are governed by demagogues, instead of principles. There are honest men enough in both the great political parties, from which to select "good men, and true" for our legislators: As for the agitators, let them remain where they ever have been, "the scum of the political pot," whose harmless effervescence is not only superficial, but transitory.

But the opponents of this "antiquated system of Banking," sneeringly inquire, if in this "progressive" age, we are to retain this conservative principle, like an incubus on the community, and reject all improvements in financial operations, while all the great interests of society are undergoing a progressive mutation. The ready answer is, that all improvements ought readily to be adopted in finance, as quickly as they are in machinery, in the arts, or in any of the departments of science. But it is necessary to ascertain, in the first place, if what are termed improvements are really such. For many years past, we have been experimenting on our Banking system, in most of our States, and in many of them, the popular sentiment runs in favor of "Free Banks," which, we fear, will in the end, prove to be a delusive theory.

"Free Banking," says Governor Shunk, "in its legitimate sense, is the right, which every man enjoys, to lend his own money, to whom he pleases. It is the exchange of money for securities, to be repaid with interest. It involves no fictitious increase of the circulation, but may be carried on to an indefinite extent, without affecting the currency. This is the Free Banking, which has at all times supplied, and does now supply, the wants of a large proportion of borrowers, and commends itself to general confidence and approval, by its simplicity, and adaptation to the circumstances of the people." "But if the system of converting State stocks into Banking capital, and hypothecating them as a security for the payment of Bank issues, were not a delusion, mortgages on real estate might be used for the same purpose, which would afford an equal, if not a better

security for the payment of notes, and by this process, the whole value of the real estate of the country might be converted into Banking capital, and the people into a nation of Bankers. This proposition shows, that the whole scheme is illusory and unsound."

In 1840, the distinguished author of the History of the United States (Mr Hildreth,) published a work on Banks, Banking and Currency, in which he advocated the expediency of the Free Banking system, and the issue of one dollar notes. In regard to the former, he maintains, that if the Government required of Banking associations, security for the payment of their circulating notes, as a condition previous to their issue, that this is the only restriction which can be of any practical benefit to the community, and that justice to the holders of the notes imperatively requires such a provision.

The author undoubtedly had in view, the New York law of 1838, when he advocated this system, but the events of a later date have shown, that the securities, which these associations had provided, have proved to be very unsubstantial and delusive; and that the new Free Banks, which came into existence "like new mercantile establishments, new railroads, new canals, new lines of packets, &c., facilities, which those who employ them, may and sometimes do employ them *to their own damage*," have in repeated instances, resulted in serious losses to the community. The Jamesville, Onondaga, Walter Joy, and other Free Banks have afforded illustrations of the principle, that Banks may be used to our "own damage."

As to the expediency of issuing small notes, the Banks in most of the States are judiciously restricted to an amount of about twenty-five per cent. of their circulation, notwithstanding Mr. Hildreth's "apology for one dollar notes;" although in Illinois, under their *Free Banking* laws, the entire amount may be of the smaller denominations, if the parties choose to issue them. The Newport Safety Fund Bank has also the privilege of issuing any amount of small notes, signed by the President, or Cashier only, and has now in circulation $135,000, with a capital of less than $33,000,—while for all notes of five dollars and upward, they are required to deposit with the Auditor of State, bonds and mortgages of an equal amount, as security for ther redempiion.

Among the leading business men, and all who have seriously reflected upon the matter, there has been far many years, a decided opposition to the policy of issuing Bank notes, under the denomination of five dollars; not only as a safeguard against the counterfeit and altered hills, so universally scattered, but as the only method of introducing a metalic currency in the smaller transactions of daily traffic, so much more satisfactory to all parties interested.

In the preceding remarks, we wish it to be distinctly understood, that we do not advocate any system of Banking, because it is *conservative*, as that almost derided term is now understood, but because no better system has yet been devised. The same general principles in regard to credit remain now as fixed, as they were a hundred years ago; viz: that to deserve credit, the needful capital, the right intelligence, and well-known probity must all be combined; and without these, no confidence can be reposed in any promises, unhesitatingly. Destitute of any one of these, the merchant may track his devious way perhaps successfully, to the attainment of wealth, but he will be one of the few, whom fortune favors: he will owe his success to accident, rather than to merit. His enterprises will be those of rash adventure, and not those of sound calculation.

So it is with Banks; destitute of the essential qualifications above stated, there can be no permanent stability, or perfect confidence in a monetary institution, which has not solid capital, discreet management, and a liberal policy with its customers. Destitute of the latter, indeed, no Banking establishment will long be successful, whatever may be the amount of its other resources. In fact, the *good will* of the depositors of a Bank is of more permanent value than its capital, and instances might be cited to show, that depositors have often sustained a Bank, when its innate strength has been suddenly paralyzed by a panic, and new vigor imparted to it, by the prompt aid of its friends; while others have sunk down into hopeless lethargy, and an ignoble death, without the sympathy of the community, or the regret of even its adherents.

Now, we ask, if the modern system of Free Banking, is calculated to win the *good will* of any community? A Bank may commence its operations with a cash capital of $100,000, but it must instantly be invested in a loan to a State, or to the

United States, for the full amount: or in other words, it must purchase the bonds of such State or States, for the full amount of its circulation, on which it depends for its profits. This circulation must be issued far away from the neighborhood of the Bank, otherwise the bills would instantly be returned there for redemption in coin, which would shortly paralyze its operations; consequently it seeks some distant mart, where its bills can intermingle with other currency, and take their chance of circulation in the great arteries of trade. The Banker then will be absolved from the restrictions, which the laws of the State, under whose authority he issues his paper promises to pay, impose, and will feel himself at full liberty to exact whatever the factitious value of money may be, whether it is twenty or thirty per cent. per annum, instead of six or seven, to which it was intended to confine him. Banking thus becomes "shaving," and it is often worthy of a harsher appellation, "grindiug," when a mean advantage is taken of the necessitous.

Is such a system likely to enlist sympathy? Is it generous? Is it honest? Volumes have been written on the subject of usury, and much useless sympathy wasted by philanthropists on this topic. We entertain the opinion, that money is a marketable commodity, and should command its intrinsic worth, but not its factitious valuation. But we maintain that these Free Bank notes are not money, nor are they convertible into money, without discount.

In a late message of Governor Ford to the Legislature of New Jersey, he says—

"The details of the General Banking Act are vague, unsatisfactory, and open to a wide field for abuse. They have already been seized upon by the speculator, and in many cases, our Banks, though ostensibly located in New Jersey, have their whole business operations conducted by Brokers in other States. The facility with which they may be organized, and located, without reference to the wants of the community, or the business of the place, is destructive to all the ends of legitimate Banking. In several instances, one or more Banks have been located in places difficult of access, and having very little communication with the improved and populous parts of the State. The tendency, if not the design of this practice, is to prevent applications, for the redemption of the currency issued by such

Banks, being made at their counters, or ostensible places of business: consequently, the notes are returned to the large cities on our borders, (whence they are no doubt originally issued) and a premium charged for their redemption. Those interested in these operations reap a rich harvest of profit. Our citizens, however, for whose benefit the law was enacted, suffer more or less by the depreciation of the notes."

Here we have a partial development of some of the evils of the "Free Banking System." Ought it to claim public sympathy?

A recent advocate of this system in England (Mr. Bennoch) in an essay entitled "Suggestions for an improved system of Currency and Banking," proposes to abolish the use of bullion as a standard of value, and substitute two other kinds of money, called National and Commercial. He proposes, accordingly, that the National currency should be issued by the Government, and be based upon the amount of National taxation; and the Commercial currency be issued by individuals, and be based on the securities deposited with the Government, with the power of sale of such securities, if the Bank proved insolvent. Two kinds of money are thus proposed, and the balances of the foreign trade be discharged by bullion. "Gold would then," he says, "have only one function to discharge, instead of two, and thus its use be economized. Panics never would occur, and we should never hear of gloom in the city, when Gold left the country, for when it did go, it would go as a commodity, instead of for its fixed mint price."

When "the fast anchored isle" slips from her moorings, and drifts across the broad Atlantic to "annex" herself to our giant Republic, we shall begin to think that honest John Bull has eradicated his ancient prejudices, and lost his love of gold, as well as his relish for roast beef. But, meanwhile, we imagine, that the "bullionists" will maintain their supremacy in Threadneedle and Lombard streets, and the country at large be content with the liberal supply of national paper, called Consols and Exchequer bills, retaining their Gold to make small change with.

In our own country, we have tried this National currency in the shape of Treasury notes, which were never at par, but while "old Bullion" lives, or the Sub Treasury can accumulate

its golden hoard, with Government retainers to watch it, a National paper currency will find few advocates among the present dominant party of our Union. If indeed, our Government would liberate their golden eagles from captivity, and substitute Exchequer bills for their disbursements, our Exchanges would remain more steady, and many financial difficulties be obviated, which now unnecessarily exist. To this extent, we are the advocates of Mr. Bennoch's system of a National currency, limited in amount to the Treasury estimates of our annual revenue.

In the financial history of the United States, there have been three epochs in Banking operations: the first, commencing with the early institutions after the close of our Revolutionary war, and extending to the peace of 1815; the next, from the establishment of the second United States Bank in 1816, and closing with its impolitic termination in 1836, and the subsequent general suspension of the local Banks in 1837; and the third, from the resumption of specie payments in 1838, to the present date. During the latter interval of sixteen years only, more experiments have been tried, than were even suggested by the sound practical sense of the preceding half century; and the first results were illustrated in the suspension of specie payments by most of the Banks, South and West of New York, as we have before stated. Causes were assigned for this, as various as the caprices of individuals could suggest; but it was as evident then, as it is now, that the operations of local Banks scattered throughout our land, cannot be restrained within proper limits, unless by some controling power, which can exercise a proper influence, and prevent them from running into excess, to the common detriment of all.

Still, however, the experiments go on. Our strong frame, iron constitution, and elastic spirits, have survived quackery, and every variety of nostrums, which "the currency tinkers" have prescribed, and now following the example of New York, many of the States have caught the mania of Free Banking, as the only safe system, and Banks are increasing in number so rapidly, that without a pocket map to discover their locality, it would be difficult to ascertain where to go for the money, which they promise to pay on their pictorial slips. The only classes of the community, who are benefited by these operations, that we know of, are the utterers of these Bank notes, and the

engravers and paper makers. The public at large, however, unfortunately have to pay for these pleasing specimens of art; some in the shape of a large percentage on discounted paper, others in the form of a discount on these Bank notes for conversion into real money, and perhaps others may be compelled to await their liquidation by the Auditors of States.

The unjust Bank Tax Act of the State of Ohio, has had a most pernicious influence in aggravating the monetary distemper, now prevalent in the adjoining States of Indiana and Illinois, and its effects will speedily be felt in all the departments of trade in Ohio, as well as the utter disappointment of her vulture-like rapacity for the very entrails of her Banks. Instead of deriving the reasonable amount of revenue, which equitable laws would impose upon an increasing amount of Bank capital, she will find that the forty branches of her State Bank have transferred their Discount Books to Indiana, and that their operations at home, have been limited to the exact amount of their capital. Indeed we see no alternative for them to pursue, without an utter disregard of their own pecuniary interests.

The inevitable tendency of the present policy of Ohio, is to destroy all her incorporated Banks, and to substitute therefor the financial agency of private Bankers, who will be independent of any restrictions in their rates of discount, and amenable to no laws, but those of conscience. And as the idea of a metalic currency is too preposterous to be entertained for one moment, the trading community will be supplied with the Bank notes of other States, who will reap the profit, thus recklessly cast into their treasuries.

But what is to be the final issue of this "Free Banking system"? It is obvious, that the practical operation of this illusive scheme, is to allow single individuals, or an unlimited number of associations to engage in the "Banking" business, and to issue Bank notes, for the full amount, for which they deposit with the Auditors, State Stocks, as collateral securities. Nominally confined to the localities, where their Bank notes are dated, the scene of their Banking operations will be beyond the limits of the State, from which they derive their power, and the public have only to presume, for they cannot know, that this multinomial currency is all secured, as the Register's signature certifies. But how secured? By the pledge of Indiana five per cent.

Stocks, for instance, worth at the present moment 98 cents on the dollar in New York. Now let us suppose that ten of these new Banks, each starting with a capital of $50,000, should all increase their circulation to $500,000, (as they have the power to do, and with adroit management can obtain the means therefor,) the public would then become their creditors for five millions of dollars. Let us further suppose that one of the ten Banking concerns was unfortunate in its operations, and became embarrassed by the delinquency of its discounted paper, so that its notes were sent home for redemption, faster than its collections would supply them with resources; the inevitable consequence would be, that unfavorable rumors would be circulated, and a run would commence upon the Bank, which would drive it into liquidation. But the mischief would not be confined to one institution only; if there was a continued pressure on the money market, or a casual panic, the alarm would extend in relation to the whole class of similar Banks, and probably most of them would share a similar fate. In such a period of gloom, what would then be the cash value of five millions of Indiana five per cent. Stocks in the New York market, and how soon could such an amount be disposed of? A moment's reflection will convince us, that the bills of all such Banking concerns would immediately depreciate, and the community would be the sufferers to the amount of the discount, or be compelled to await the final liquidation.

But there is another objection to this system. It authorizes a single individual to exercise the combined functions of President, Directors and Company of one of the incorporated Banks, under the former laws, and to convert established Banking privileges into a vague and unrestricted system of money trading, shaving and extortion. There is surely less security in this description of business, than in legitimate Banking, for generally speaking, it will be principally confined to needy, speculative and bold operators, who are always ready to pay high rates for money, and are generally the most plausible in their expositions of securities.

In our commercial communities, it is a familiar fact, that a very large proportion of those who embark in trade, ultimately become bankrupt, and every one who has been in business twenty years, has had ample experience of the fact. Now as

Banking institutions embark nearly double the amount of their own capital in the business notes, which are discounted, it necessarily requires unceasing vigilance to avoid the hazards, to which they are constantly exposed. The means of information, which any single individual possesses, however wide may be the circle of his acquaintance, or diversified his sources of information, cannot be commensurate with those possessed by men of intelligence, who are engaged in the busy haunts of trade, and are constantly on the alert, to watch the changes of the market, the rise and fall of merchandise, and their effects upon the fortunes of their competitors. Hence a Board of Directors has always been regarded as one of the essential requisites of a Bank, and on their respectability and character, the reputation of the institution mainly depends. Why then dispense with this safeguard? The answer is obvious: designing operators wish to exercise supreme control over the Bank movements, and keep their own dark counsels, and schemes, aloof from public scrutiny or knowledge.

But we have still another objection to this one man power. Human life is of so uncertain tenure, and where the functions of a monied institution are vested in a single individual, there is obvious insecurity in its promises. In England, all the large Banking Houses have from three to six partners in the concern, to guard against this very contingency, and no monetary establishment is entitled to entire confidence, where the loss of a single life would suspend its operations, even for a day.

But aside from the uncertainty of human life, there are also the vicissitudes of business to be guarded against. The Banker, who has embarked his fifty or hundred thousand dollars in this business, will be likely to extend his operations into other departments of trade, and in the event of failure, all his liabilities would share a common fate. The Massillon Bank suspension is a case in point: the principal, or controlling stockholder failed, in New York, and with his downfall, that of the Bank followed. Neither the President, nor Cashier had the requisite funds, under their control, to sustain it, nor was there an efficient and independent Board of Directors to aid them in their emergency. But with the New York manager, the whole amount of their Bank circulation fell like a dead weight upon the community; perhaps never to rise again. Would any

prudent man deposit his funds in such a frangible institution?

But further: one of the primary purposes of the establishment of Banks, was to provide for the secure investment of trust funds, belonging to widows and orphans, from which they might derive a sure and regular income. Aided by the services of intelligent and prudent Directors, Banks have always yielded the most uniform dividends. and when their capitals have been derived from such sources, their stocks have maintained an uniform market value, because they have no needy stockholders to uphold, or cormorants to satiate. Confining themselves to the legitimate business of Banking, they loan their capital stock to responsible parties, and grant all the additional accommodations to their customers, which the surplus funds of their permanent depositors may regularly supply. Such institutions command the confidence of the community, and need no adventitious aid to sustain their strength, or security. Contrast an institution of this character, with one which is managed by an individual Banker, on his own account. The one is a gallant ship, skillfully laden, ably commanded, fully manned, and thoroughly equipped, to encounter the perils of the mighty deep, and almost sure to arrive at her destined port;—the other, is an æronautic expedition for the same destination; its means of transit, a balloon, guided by a single hand; its momentum, expansion; its course, erratic and uncontrollable; and its dangers, exhaustion or explosion. It need not to be asked, which is the safer vessel of the two.

We are aware that we are pursuing an unprofitable theme, since the popular sentiment of this section of our country has been driven into the current of Free Banking, following the lead of New York. In that proud State, there are nearly three hundred Banks, forty-three of which are individual establishments, in the interior towns, and mostly with small capitals. And Indiana and Illinois will probably furnish the West with a similar proportion of this kind of Bank note paper.

Now, it is somewhat remarkable, that while in all the prominent departments of business;—our Railroads, Manufacturing establishments, Insurance companies, and other associations,—Boards of Directors are regarded as indispensable for the management of affairs; yet in Banks, which so directly affect the interests of a whole community, and whose movements ought

to be characterized by sagacity, discretion, and a prudent liberality; the aid of an advisory Board should be dispensed with, and all the influence of a Banking institution, be entrusted to a single individual, whose caprice might exercise a despotic sway over the fortunes of his dependents.

And while we are on this subject of Bank direction, we would suggest, that there might be a radical improvement introduced, by the reasonable payment for the services of Bank Directors, etc.

A somewhat extended familiarity with the gratuitous labor in Banks, Insurance offices and Manufacturing corporations, has taught us the value of the time, and responsibility, which have for several years been freely bestowed, in the management of the affairs of productive establishments, and we have never discovered any reason, why the most precious hours of a merchant's daily life, should be gratuitously devoted to the benefit of others, even at the sacrifice of his own interests, when the time of other professions is so liberally compensated, The financial concerns of a whole community are more important than the title of an estate, or the health of a patient; and yet we bestow liberal fees upon the guardians of the two latter, while the Bank Director is regarded as amply compensated, by the empty honor. But if the subject was regarded in its true light, it would at once be perceived, that if Directors were paid for their services, they would be under greater responsibility to render prompt and constant attendance at the meetings of the Board, and the stockholders would have stronger claims on their services. What is true in regard to Banks, is equally valid in relation to Insurance, Manufacturing, and Railroad corporations, and in fact, in relation to any association, whose object is pecuniary profit.

With every successive year, the varied interests of trade in the widely scattered sections of our country become more and more complicated, and it is obvious that those of our merchants, and capitalists, who can give the tone to public opinion, should furnish the community with the aid of their past experience, instead of looking on supinely, without a warning voice to apprise us of our near approach to a vortex; for in that light we regard the increasing multiplicity of Free Banks, with small capitals, and without Directors.

Since, however, the trading community have become entangled in the meshes of a heterogeneous currency, it is incumbent on them to guard against involvedness and sudden surprises, as well as to warn the unwary of the jeopardy. And we shall now consider how this may be accomplished.

There seems to be but one direct method of effecting this desirable object, and it might result favorably to the interests of all parties, the issuers, and the holders of these Bank notes.

Experience has taught the community, that in consequence of the rivalry of small Banks, there is an urgent importunity in behalf of interested parties to secure the circulation of their Bank notes, wherever negotiable paper or convertible securities can be exchanged therefor. The questions asked by such financiers, are primarily, if a good circulation can be assured; secondly, the rate of exaction, to which the parties are willing to submit; and thirdly, the character of the paper to be proposed;—thus reversing the true order of inquiry. But who are the parties? Probably, a speculative Banker, preying upon the necessities of some bold operator, whose transactions require an unceasing supply, and outlay of Bank notes. Or perhaps some of our modern Railroad contractors come forward, and with one fell swoop, absorb the circulation of a dozen of these trading Banks, and thus furnish them with the means to procure an additional supply of Bank note paper. By these simple operations, the country is soon inundated with a multifarious currency, which in the natural course of trade, soon finds its way into the larger towns and cities, and is then either sold at a discount, if remote from the point whence it was issued, or sent home for redemption. Now, if the Free Banks, which are coming into operation, would agree to redeem their bills, at the central point of trade in the States where they are located, it would enhance their reputation with the community, and render their circulation more uniform and permanent. Besides, the public generously receive these bills, as the representatives of Specie, and have a correlative claim for their easy conversion into Coin. If, then, the Banks of Indiana and Illinois, would make provision for the redemption of their notes at Indianapolis and Springfield, or Chicago, instead of the scattered villages or towns, whence they are now nominally issued, all reasonable facilities would thereby be afforded, for their

redemption, and then would attain a wider circulation, and be justly entitled to more confidence in the community. They would then command the Specie in Cincinnati at a much lower rate of exchange, than is now demanded, and the Banks themselves would be exempt from much needless expense in the transportation of Specie, to which they are now unavoidably liable. It would furthermore be the first step in the Western States, toward the introduction of the Suffolk Bank system, so long in vogue in New England, and might hereafter lead to an equalization of the currency throughout the entire Western country, and the abolishment of the present distinction between *par* and *current* funds.

The concerted action of a few leading Bankers in the two States of Ohio and Kentucky, (whose interests would be directly promoted by the arrangement,) and whose influence would be rightly appreciated by the Bankers in Indiana, Illinois and Michigan, might readily effect this object. We may even go further, and state, that in the city of Cincinnati alone, there are Banking establishments, which could constrain these preliminary measures of uniformity in the currency, as easily as the originators of the Suffolk Bank system compelled one Bank after another in New England to adopt their system of equalization. In its early stages, the project was denounced, and violently opposed by interested parties, who had gorged the channels of trade with their Bank notes; but a discriminating community soon appreciated the advantages they derived from the arrangement, and finally nearly all the Banks became parties thereto.

This system is the most perfect one, in our country, and quite equal to that of Scotland—the peculiar feature, and chief excellency of which is, semi-weekly Exchanges. By this arrangement, the over issues of any Bank are returned upon it, in a manner and in so short a time, as to remove all inducements to over-trade. The exchanges are effected in Edinburgh, where a general adjustment takes place twice a week, and any Bank refusing to exchange, would lose its credit at once. Each Bank receives in payment the notes of all others in good credit, but it pays out none but its own, in the way of business. All that it receives, are promptly forwarded for payment, and are not allowed, as in this country, to circulate

from hand to hand to an unknown amount, and for an indefinite period. Thus the notes of one Bank in Scotland are as good as those of another, because every Bank readily takes them and *turns them into money*, by the semi-weekly exchange; and consequently there is no distrust: the circulation is very large, and each Bank enjoys precisely the proportion thereof, which the business of its section of the country will support. We are not sanguine enough to suppose, that either of these systems can be adopted in the Western States, under the present Banking laws; but while they allow such extended privileges, the community have a right to require greater facilities for obtaining the coin, for these notes at some central point, instead of traversing an entire State, to collect a few hundred dollars. The systematized plans, and combined efforts of two or three leading Bankers, could coerce these scattered Banks into some arrangements for a more convenient point of redemption, than the law provides; and although, in the onset, it might be opposed by caprice, or selfishness, yet in the end, the plan would be found more advantageous to all parties.

It is recorded of the late Samuel Ward, Esq. (the former President of the Bank of Commerce, in New York,) that his indomitable and persevering exertions resisted the suspension of specie payments in 1839, when the Banks of Pennsylvania and those of all the States, south and west thereof, suspended, and clamors, almost amounting to menace, were heard against the declared purpose of the New York Banks, to maintain at all hazards, their specie payments. Mr. Ward threw himself at once into the conflict, sustained and encouraged the timid and doubting, "willing that his exhausted frame should be sacrificed, if by word or deed, he could aid the Banks in adhering faithfully to their duty." "And when at last, he saw that it was accomplished, and that the honor and fair fame of the much loved City, in which, and with which, he had grown from boyhood to mature age, were to be inviolably maintained, he went home to die. It was literally so: the bed which received him, after the accomplishment of this his last labor, he never again left alive." Here was a noble instance of a single mind acting upon a large community, during the most perilous period of our commercial history, and successfully accomplishing the maintenance of our public credit, by persuading the Banks to redeem

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their promises with a specie equivalent. At this critical juncture, there were about 350 Banks in New York and New England, whose aggregate circulation amounted to over twenty-five and a half millions of dollars, and this was promptly redeemed in Coin, on presentation; but nearly three years elapsed, before the suspended Banks resumed specie payments in the other States. By this one single act, Mr. Ward bequeathed to all Bankers, a noble example of self-sacrifice and perseverance; and it should induce others, who occupy prominent positions in monetary affairs, to exert a similar influence in checking the effusion of Bank notes, which now threaten to overwhelm us in the West, in the shape of Indiana currency, unless some counteractive influence is exerted, to secure and enforce a more summary specie redemption. At the present moment, the popular sentiment in Ohio, welcomes this accession of currency, as an immediate relief, in these exigent times; but we fear that this circumstance, will stimulate over-Banking in Indiana, and will create an undue proportion of paper to specie, and cause over-trading, over-production, and over-action in all the departments of trade. If this just proportion of specie to paper is derided, and Gold is in requisition to pay our foreign balances, this increase of paper circulation will prove a most delusive policy.

But the advocates of this Free Banking system maintain, that in any emergency, the bill holders are secure, because public Stocks are pledged for the final redemption of these bills. We answer in the words of Mr. Webster, "no solidity of funds, no sufficiency of assets, no confidence in the solvency of Banking institutions, has ever enabled them to keep up their paper to the value of Gold and Silver, any longer than they paid Gold and Silver, on demand. This will continue to be the case, so long as those metals shall continue to be the standard of value, and the general circulating medium, among nations." And further, "The credit and circulation of Bank paper are the effects, rather than the causes of a profitable commerce, and a well-ordered system of finance. They are the props of national wealth and prosperity, not the foundation of them."

"The office of a *well-regulated currency*," says the London Spectator, "is not to replace the capital, which has been lost, or to restore confidence which has been shaken, or to inspire

it, when it is not due; but only to furnish that which is a trustworthy and convenient medium of exchange, for mercantile transactions, both foreign and domestic. No panic can be arrested, by the legerdemain trick of issuing Bank promises to pay, without the wherewithal to keep the promise."

And yet we see, that when currency is scarce, the common impression is, that it is the duty of the Banks to issue, more to supply the deficiency. Such a course would be suicidal—the laws of trade determine the amount of currency, which can be kept in circulation, and any attempt to over-leap these prescribed limits, would only aggravate, not alleviate the evils, which may temporarily exist.

But how is this "*well-regulated currency*" to be managed? By a thousand different individuals, in different parts of the country, having no connection with each other; no concert of action, no unity of purpose? On the contrary, are they not antagonistic in their influences and operations, each striving to enlarge his sphere of action, without reference to the general condition of trade?

But let us take another view of this subject. The amount of currency issued by the Banking associations and Bankers in the United States is estimated at $180,000,000. If this amount was all predicated upon the deposit of State Stocks, it would nearly absorb the bonds of all the States in our Union. Many of these States are already preparing to pay their bonds at maturity, and avoid any further indebtedness. The surplus revenue of the United States is even now partially appropriated to the anticipatory payment of all the bonds, which can be purchased under certain limits, and this source of supply will probably soon cease. The State of Ohio is preparing to pay its bonds due in 1857; and Indiana, those due in 1860; and this policy will probably be adopted by many of the other States, as their bonds become due. As the trade of the country enlarges, an additional amount of currency will be required, and a corresponding deficiency of State bonds will exist. What then will be the basis of circulation? Already Railroad bonds, City bonds, and mortgages on real estate have been proposed as substitutes, and at the last, we may come down to Insurance stocks, or even Manufacturing corporations, for the requisite materials, to furnish the basis for our Bank note paper. A sys-

tem, which is constructed upon such a shifting foundation, is delusive, and if generally adopted by the other States, it will convert every Broker's office into a Bank of issue, and their number will be as indefinite as the stars in our firmament. Besides, what good reason can be given for the substitution of private Bankers' paper, for the notes of wealthy, consolidated Banking corporations, who have steadfastly redeemed their promises, and furnished to the community all the facilities, which common prudence would allow? This question is more easily asked, than satisfactorily answered.

Any one conversant with the *materiel*, of which the popular branches of our Legislatures are constituted, will understand the solution of this problem. Men of honest intentions, but of weak calibre, sit in grave deliberations to decide upon momentous questions, and their votes are often determined, not by the arguments, which are uttered on the floors of the Legislatures, but by that pernicious influence, which "Lobby members" insidiously exert; and even our National Congress is not exempt from this extraneous interference. Self-interest, cupidity, and personal ambition exercise a more powerful sway over the votes of members, than the sovereign people are aware of: and hence the constant changes in our Legislation, and the frequent amendments of the acts of our lawgivers. When any measure does not quite answer the purposes of its originators, it will be passed through such manifold mutations, to mould it into its desired shape, that its original form can hardly be traced, after its final "amendments" have been superadded. Who, for instance, could imagine that a Savings Institution, with a capital of $50,000, made up of small deposits, of one, two, and three dollars, could be converted into a mammoth Banking association, with Trust powers, and with an unlimited Banking capital for issue, discount, and deposit, and a *perpetual* charter? And yet this has been done within five years, in a State, which possesses an unexceptionable Banking Code, and whose Banks are entitled to as high a credit, as any in the Western country.

But still further. We all know, that most of these modern Free Banking concerns, particularly in the West, are the property of parties, who embark all the means they possess, or can obtain, in the enterprise; and invest the whole amount in State Stocks, on which they receive the regular interest. They have

no other other funds to loan, excepting their own Bank paper; and unless the public are willing to accept this in lieu of money, their means of usefulness are at an end. Speculators and needy operators are the only parties, who will be induced to apply for these notes, and through their agency, these duplicate representments of State debts assume the form of currency, and silently and gradually intermingle with the general circulation. While the channels of trade are deprived of the use of a sound currency, this second-rate paper will usurp its place, and supply the vacuum; but if wiser counsels should ultimately prevail, and encouragement again be given to capital, these mushroom symbols of money would quickly be driven home for redemption, and extinction. One energetic Broker, with ample pecuniary means, might successively paralyze the operations of all the small Free Banks in Indiana, and without any very extraordinary effort, compel them to redeem their paper, as fast as it was issued. Nor would this be harsh treatment: there is no more reason, why a single Individual should issue $100,000 of his notes, as currency, because he is the owner of an equal amount of State bonds, than that another person should have the same privilege, who holds a like amount in Railroads or real estate: indeed the latter might be the more readily convertible into money, than the State bonds.

Banks, which are created for the sole purpose of making money out of their circulation, have no claims upon the indulgence of a community, who have become bewildered with the daily accessions of new Bank notes; and we know no reason why the talismanic word "Indiana" should give currency to a slip of Bank paper, signed by an unknown President, and Cashier, any more than "Rhode Island," or "Tennessee." It is quite time, that the community bestowed some attention to this matter, before they are enveloped in a mist of endless confusion; for at the present moment, there is neither chart, nor compass, by which they can direct their course. Obviously, it is the duty of the Bankers in Cincinnati, to ascertain the true value of the Bank notes, which they receive on deposit, and pay out again to their customers. Their sanction of this heterogeneous circulation is an implied guarantee of its soundness, and the public so regard it.

We have, perhaps, dwelt upon this subject quite long enough

to weary our readers, and we now relinquish it. How long these various Banking schemes are to be tolerated by the community, time only will determine; perhaps some flagrant transaction like the Merchants and Mechanics' Bank of Oswego and Syracuse, will alone disclose the precipice, on the margin of which, we have long been endangered; fortunate will it be, if any timely hint, by a single downfall, should warn the unwary, to escape the peril.

But, where are we to look for succor? There is but one sure point, and that is the General Government, who alone have the power to exercise a salutary control over the currency of our entire country, by the adoption of such measures, as have been in successful operation for forty years of our existence as a nation. There can be no other restraining, no other equalizing power, but of the exercise of this, we are hopeless, in the present generation. Perhaps in the chaos, which ere many years may ensue, our domestic exchanges will become so deranged, and irregular, that public opinion will demand relief, through the agency of an Exchequer system. One of our most eminent statesmen, (whose lamented removal from the scene of his earthly labors, the Nation still deeply mourns, in the present crisis of our Congressional debates, and public excitement,) has left us invaluable lessons on this subject, to which we ought to recur for instruction, in this hour of our need; and with a few extracts from these, our remarks will be closed.

"It is undoubtedly the constitutional duty of the General Government, to see that a paper currency, suitable to the circumstances of the times, and to the wants of trade and business, as well as to the payment of debts due Government, be maintained, and preserved: a currency of general credit, and capable of aiding the operations of exchange, so far as these operations may be conducted by means of the circulating medium; and there are duties therefore devolving on Congress, in relation to currency, beyond the mere regulation of the gold and silver coins."

"Every one, who looks over this vast country, and contemplates the commercial connection of its various parts, must see the great importance that the Exchanges should be cheap, and easy. To the producer, and the consumer, to the manufacturer, and the planter, to the merchant, to all, in all classas, this is a matter of moment. We may see an instance, in the common articles of manufacture, produced in the North, and sent to the South and West, for sale and consumption; and a state of exchange, which shall enable the producers to receive payment regularly, and without loss, is indispensable to any useful prosecution of this intercourse. Derangement of currency and exchange is ruinous. The notes of local Banks, will not answer the purpose of remittance—and there can be no satisfactory state of internal trade, when there is neither cheapness, nor promptness, nor regularity, nor security in the domestic exchanges."

"We may erect Banks, on all the securities, which the wit of man may devise; we may have capital; we may have funds, we may have bonds and mortgages; we may add the faith of the State; we may pile Pelion upon Ossa; they will be State institutions after all, and will not be able to suppport a naional circulation. This is inherent in the nature of things, and in the sentiments of men. It is in vain, to argue that it ought not to be so, or to contend, that one Bank may be as safe as another. Experience proves that it is so, and we may be assured that it will remain so."

"We have in actual use a mixed currency; the Coin, circulating under the authority of Congress; the paper, under the authority of the States. But this paper, though it fills so great a portion of all the channels of circulation, is not of general and universal credit: it is made up of various local currencies, none of which has the same credit, or the same value, in all parts of the country: and therefore these local currencies answer but very loosely, and imperfectly the purposes of general currency, and remittance."

"I think the State Banks can never furnish a medium for circulation, which shall have universal credit, and be of equal value everywhere. I think they have no powers, or faculties which can enable them to restrain excessive issues of paper. I think their respective spheres of action are so limited, and their currencies so local, that they can never accomplish what is desired in relation to Exchanges. I maintain that the people of this country are entitled at the hands of the Government, to a sound, safe, and uniform currency; and it is a sentiment

deeply infused into me; it is a conviction, which pervades every faculty I possess, that there can be no settled and permanent prosperity, of the commerce and business of the country, until the Constitutional duty of Government in regard to the currency be honestly and faithfully fulfilled."

We have thus imperfectly delineated the practical operations of the three different Banking systems of New England, New York, and the Western States, leaving our readers to draw their own conclusions as to the relative merits of each, and between the policy of the old Incorporated Banks, the Safety-fund Banks, and the Free Banks. Our own predilection has been fully expressed, in the *First Part* of these remarks, and we can see nothing in the modern system to qualify our views, or change our deliberate opinions. Others may think differently, and we may be in error; but our conservatism clings tenaciously to old principles, which have hitherto proved safe, yielding to others the hazard of entrusting their fortunes in the buoyant bark of "ONWARD PROGRESS."

ERRATA.

On page 21, sixth line from top, read *specious* instead of "spurious."

Same page, twenty-first line from top, read *scrutiny* instead of "security."

END OF
TITLE